SMALL BUSINESS ADMINISTRATION'S BUDGET FOR FISCAL YEAR 1990

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

WASHINGTON, DC, FEBRUARY 22, 1989

Printed for the use of the Committee on Small Business

Serial No. 101-3

U.S. GOVERNMENT PRINTING OFFICE

96-334 ±± WASHINGTON : 1989

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H721-27

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SMALL BUSINESS ADMINISTRATION'S BUDGET FOR FISCAL YEAR 1990

WEDNESDAY, FEBRUARY 22, 1989

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, in room 2359-A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Present: Chairman LaFalce; Representatives Hayes, Bilbray, Lancaster, McDade, Ireland, Slaughter, Meyers, Hancock, and Campbell.

Chairman LAFALCE. The Small Business Committee will come to order. First of all, I'd like to apologize for being late, but as I was explaining to Congressman McDade, there was a matter of the greatest urgency that kept me in my office on the phone.

Today's hearing is on the Small Business Administration's budget request for fiscal year 1990.

Although President Bush sent to Congress a budget-type message on February 9, as of this date we have received a budget document and request for SBA only from the outgoing Reagan administration.

The only official pronouncement concerning the SBA is the President's intention to nominate Susan Engeleiter of Wisconsin as Administrator, presumably sometime in March. Meanwhile, everything else appears to be "on hold."

This "on hold" attitude brings us to the main topic of today's hearing, demand versus availability of 7(a) general business loans.

In the last Congress, we made the decision to "beef up" the SBA guaranteed loan program. Frequently, it is the lack of capital which prevents a small business, or a prospective small business, from carrying out its part of job creation or assisting with correcting our balance of payment problem by exporting.

On a bipartisan basis, we beefed up the program by, for example, increasing the maximum loan amount per borrower, and at the other end of the scale by establishing a new miniloan program.

At the same time, Administrator Abdnor initiated a campaign to encourage banks to participate in the program, and I might note he was quite successful. It accomplished its goal.

These SBA promotional efforts, coupled with a changing economy, led to a surge in demand. While previously we simply discouraged the lenders from generating loans and thus stayed within a

reduced budget, at the end of the last fiscal year, in August and September, we had to ration credit.

That situation continues today and will probably get worse as implementation of the legislative changes will increase loan usage even more.

This shortage of loan guarantees and its resulting adverse impact is very disturbing. Time after time we have shown that SBA loans more than pay for themselves in the return to the Government of tax dollars, yet the benefits are ignored.

Even more disturbing is that without having to appropriate any additional money, we could shift some loan guarantee authority to this program from others which currently are not experiencing such a high demand. But OMB does not want to make this change.

This brings us to next year's budget. The Reagan request not only doesn't provide any relief, it goes in the wrong direction. It proposes to freeze the guarantee level at the amount of 1988 actual expenditures. In addition, it would reduce the percentage of guarantee and thus shift more risk of loss to the lender, while at the same time charging borrowers an upfront or application fee of 5 percent, instead of the 2 percent charged today.

If adopted, and it will not be, I believe that this would effectively kill the guaranteed loan program, and possibly this is the intended result.

Having failed in an outright attempt to abolish SBA, the Reagan administration seems to be seeking to do it piecemeal, and I hope that the Bush administration will be coming in shortly with a totally different direction for SBA. But they better nominate a new administrator pretty shortly so they can get their act together.

I could not quarrel with anyone who comes to the conclusion I've just said, particularly after examining other parts of the Reagan budget request such as, again, elimination of all direct business loan programs, like the handicapped, minorities, veterans, the new 8(a) program, et cetera; the elimination of the disaster loan program; changing the MESBIC program to guarantees instead of direct purchases of debentures and preferred stock, which sounds innocuous enough, but what it really amounts to is there would be no more equity investments in MESBIC's by SBA, and the cost of their initial debenture money would increase by about 30 percent; repealing the Small Business Development Center management assistance program—that would go over very well before Chairman Smith and the appropriations subcommittee for SBA; and selling $300 million in loan assets in fiscal 1990 and all disaster loans by the end of fiscal 1994.

Well, I'm certainly going to fight any attempt to dismantle SBA. I'm also going to fight for increases in SBA programs which not only benefit small business but also benefit our economy. We have to stop viewing all Federal expenditures the same. We must change our system to reflect the benefits of spending which constitute an investment in the future, and then we have to give priority to that type of investment.

I place SBA's financial assistance programs, in particular guaranteed loans, in this category. I have already communicated with Chairman Panetta on the Budget Committee, to seek the Budget Committee's help in expanding the 7(a) program to meet demand,

and I would solicit the support of every single member of this committee for as long as it might take. I surely do want to solicit the help of the new Bush administration.

Before we begin, do other members have statements they want to make?

[Chairman LaFalce's opening statement may be found in the appendix.]

Mr. McDade. Mr. Chairman, thank you, Mr. Chairman. I would like to welcome the distinguished panel that will appear in front of us today and have an opportunity to get their recommendations on yet another year of budget crunches that face us across the board in the country, and demand that we all give our best thinking to try and define the solution to those problems.

I certainly want to echo the comment of the chairman that those of us who sit on this committee want to see the SBA continue in what we believe to be its important role as an entity of creation of wealth and creation of jobs in the country. We hope that the days those who talked about its abolition are finished, and that we can look forward to constructively discussing what we do about meeting the financial needs of the country and the financial needs of the small business community in a unified way.

So, we thank you all for your presence here this morning. We're interested in your testimony. Thank you, Mr. Chairman.

Mrs. Meyers. Mr. Chairman.

Chairman LaFalce. Mrs. Meyers of Kansas.

Mrs. Meyers. I, too, would like to welcome the panel and most particularly, Mr. Deryl Schuster, who is from Kansas, and who will present the statement on behalf of the American Bankers Association today. Deryl has long played a role in the Small Business Association and is an outstanding banker from Kansas, and I'm very pleased to have him with us.

Mr. Schuster. Thank you.

Chairman LaFalce. Yes; I remember meeting Mr. Schuster at some length in Boston at a small ABA Small Business Conference.

I would ask unanimous consent to include at this time the opening remarks of the Honorable James H. Bilbray and the Honorable Silvio O. Conte. Without objection, so ordered.

[Mr. Bilbray's and Mr. Conte's opening statement may be found in the appendix.]

Chairman LaFalce. If there are no other opening statements by the members, then we would go to our first witness, and our first witness is that great fan of the Boston Red Sox, Mr. Deryl Schuster.

TESTIMONY OF DERYL K. SCHUSTER, CEO AND PRESIDENT, KANSAS BANK CORP., ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION [ABA]

Mr. Schuster. Thank you. Good morning Mr. Chairman, members of the committee, and particularly my dear friend, Jan Meyers.

I am Deryl Schuster, CEO and president of the Kansas Bank Corp., a multibank holding company in Kansas, and serve as CEO, president, and director of banks in Wichita, Liberal, Elkart, Abi-

lene, Harper, and Syracuse, KS. I am a past chairman of the American Bankers Small Business Committee. Years ago, I had the pleasure of serving as SBA District and Regional Director. I am ABA's representative to the Small Business Administration's National Advisory Council, and I was the National Small Business Banker Advocate of the Year for 1984. Currently I serve on the ABA's Government Relations Council and the Bank Leadership Council.

I welcome the opportunity to present ABA's views on the Small Business Administration's budget request for 1990. Or, perhaps, more accurately, OMB's proposed budget request for SBA.

Mr. Chairman, as you have said, the banking industry has been a major participant in SBA programs for many years. This relationship has been the epitome of privatization. Oh, how others could work to duplicate this shining example in the Federal Government. Particularly that is true with the 7(a) guarantee program. Approximately 10,000 banks have been involved in this program.

As you have stated so very well, Mr. Chairman, and I have trouble finding anything in your opening comment to find harm with. I would accept it and would offer the ABA and particularly the Small Business Committee of the ABA, our total resources in working with you and the committee in finding solutions to this terribly important need to provide long-term financing for small business.

As you have said many times and very eloquently, small business is the major creator of jobs in our society. In fact, that is where the major source of new jobs are coming from. My group, the banks of Kansas Bank Corp. are active and have been for many years in SBA programs. In fact, over 90 percent of the 625 banks in Kansas participate in the 7(a) program, as do over two-thirds of the Nation's banks in this entire country.

I believe that the ABA in its annual support of the SBA has been very open minded and reasonable to change. In fact the ABA supported an increase in the guarantee fee for 7(a) loans from 1 to 2 percent, and supported reducing the maximum guarantee from 90 to 85 percent on certain loans.

However, due to the importance of the 7(a) program to the Small Business Community and to keep it workable, the ABA must oppose further attempts to reduce the guarantee loan program, and the devastating proposal to increase the guarantee fee from 2 to 5 percent.

Without question, the proposed guarantee fee increase would harm the very businesses that the agency was created to assist.

Mr. Chairman, I want to congratulate you and the committee for increasing the lending limit to $750,000 and for making the other changes that the ABA supported as well. You have been very successful.

Unfortunately, this program, particularly the 7(a) program, is facing problems because of your success. As we have stated in the past, when there is confidence in the agency, when the programs run smoothly, then participation increases. We are facing such a situation today. The demand for 7(a) guarantee funds is out-stripping the allocation. The demand is a mark of the need and the success of the program.

According to 1988 totals, guaranteed loans comprised all but 671 loans of those made by SBA. Or 96 percent, as it relates to dollars, 98 percent of SBA's total loan programs work through the lending institutions.

In the first 2 months of this fiscal year before SBA placed strict limits on 7(a) approvals, demand for the 7(a) loan program was 52 percent higher than the similar period last year.

Mr. Chairman, in the short run we believe that reallocation of loan funds at the SBA can provide some minimal alleviation to the problem. However, in the longer term something more must be done. We believe, as you just pointed out, Mr. Chairman, that a persuasive case can be made that the 7(a) program, utilizing private sector resources, may well create more tax revenue than SBA costs in total. Small business expansion, investment of capital, and new jobs create revenue.

Let me cite just two examples in Kansas of the thousands of loans that our office has made in Kansas, just two recent State, small business winners, who both, if here today, would say that their success is of much credit to SBA and to the bank guarantee program. But these two loan recipients have employees totaling over 1,900. Those employees pay more tax revenue each year, in fact, over twice the tax revenue each year, than the SBA office in that State costs for the entire year. Just two of the thousand.

Why is it that as the chairman just pointed out, more people don't buy in to this cost-effective program? Loan approvals are being allocated now on a daily basis. That is, there's a certain pot of money available, and if the loan is not approved today it goes back on the stack for tomorrow's pot.

Consequently, loan approval times are slow to a relative standstill, and the pile of unfunded loans gets bigger every day. In my four-State region demand runs in the neighborhood of $1 million a day. Unfortunately, the daily allocation is closer to $170,000 a day. Even worse, this past week local offices were told to stop approving loans that involved any refinancing, debt consolidation, or restructuring, which eliminates a high percentage of normal SBA loans needed by small business.

Over the past 2 years the SBA image and credibility has improved significantly. But if the SBA continues on its present course, I'm afraid it may have been for naught, and I hope the hidden agenda is not as you addressed earlier, Mr. Chairman.

The Federal Government has crafted a program that works. The SBA has been a blessing to rural communities for inner cities and for businesses all over America. As I mentioned, we could cite many examples of SBA success stories. But let me give you one that our ABA Small Business Committee chairman gave me this week.

In 1968, two professors from South Dakota State University founded a company called Daktronics. Literally starting in a garage, Daktronics makes electric score boards, voting systems, and signs. In 1973, this firm, through its local bank, got an SBA guaranteed loan to expand. Currently Daktronics is internationally competitive. It's electronic scoreboards were used in the 1988 Summer Olympics, and 40 State legislatures used their voting

system. This year this company will gross over $20 million and employ 342 people in a town of 15,000.

The program is cost effective, and if the SBA's ability to implement its programs deteriorates further, program participation and effectiveness will be drastically reduced because of budget limitations, uncertainty, frustration, and, again, doubts about the agency. I don't think we should let that happen.

Mr. Chairman, we must satisfy the short-term demand, and, as I mentioned, the ABA is willing to enter into discussions with you, the committee, and anyone you believe is important to insure that sufficient credit is available for this very important component of the American business scene, small business.

Further reductions of these programs will adversely affect the small business community and, as you point out, our national economy. I would be pleased to answer any questions that you might have.

[Mr. Schuster's statement may be found in the appendix.]

Chairman LAFALCE. We will withhold questions until we hear from all our panelists. Our next panelist will be Mr. Anthony Wilkinson on behalf of the Independent Bankers Association of America. Mr. Wilkinson.

TESTIMONY OF ANTHONY R. WILKINSON, SENIOR VICE PRESIDENT, STILLWATER NATIONAL BANK AND TRUST CO., ON BEHALF OF INDEPENDENT BANKERS ASSOCIATION OF AMERICA [IBAA]

Mr. WILKINSON. Mr. Chairman, my name is Tony Wilkinson. I'm a senior vice president at the Stillwater National Bank in Stillwater, OK. I currently serve as president of the National Association of Government Guaranteed Lenders, and I'm here today as a representative and member of the Independent Bankers Association of America.

I have been personally involved with the Small Business Administration and its business loan program for approximately 10 years, and my bank, the Stillwater National Bank is both a certified and preferred SBA lender.

You have a copy of my written testimony. I ask that it be included in the records, and my comments will summarize that report.

The SBA business loan program continues to serve the purposes for which it was started some 30-plus years ago. Small business continues to have a gross inability to obtain long-term debt capital. Community banks cannot fund long-term loans with short-term deposits. It is the SBA that bridges this financial gap and helps small businesses obtain the kind of debt capital that is appropriate to their needs. It is this long-term financing mechanism that helps small businesses grow and prosper, create jobs, and generate revenues for the Government in the form of increased tax revenues.

But we're not here today to debate the worth of the agency's loan programs. That has been done over the last several years, and this committee has proven to be a strong supporter as indicated by the $750,000 guarantee limit, the miniloan program, and the international trade loan program. The small business community is truly grateful to all of you for your efforts.

What we are here to discuss is the 1990 budget proposal for SBA. In particular, I was requested to comment on the proposal to raise the guarantee to 5 percent, and on the proposed funding level for the 7(a) loan program.

First, the guaranty fee issue. The proposal to increase the guaranty fee from 2 percent to 5 percent is a rehash of a similar proposal in 1987 to raise the fee to 4 percent. Testimony was heard at that time that clearly demonstrated that raising the fee above 2 percent was not a viable opportunity. There's not a lending program today that could be effective with a 5-percent guaranty fee.

These higher fees would mean higher costs to the small business borrower, and would serve to work directly against the people and businesses the SBA was specifically designed to assist.

I am disturbed that the previous administration and OMB's mindset has been one of scrutinizing outlays only. I wonder where the small business borrowing community gets credit for the income they generate. I'm thoroughly convinced that the income to the Government that is generated by 7(a) recipients is more than is needed to run the entire agency. I'd like to give you a couple of examples from my borrowers.

Two companies, both that were started in the early 1980's—one started with two people, the other was a one-person operation. Today, these two companies employ over 525 people. They will pay combined net income taxes in 1988 of some $800,000 and will pay substantially more than that in payroll taxes.

Without a doubt, neither of these companies would be where they are today without the financing opportunities provided by the 7(a) program.

In early 1986, we did a sampling of 40 credits that we had in our bank and found that those 40 borrowers employed some 460 people. These 40 borrowers had used $6.6 million in SBA guarantee funds, and $2.7 million in tax revenue had been generated during the first 24-month period the loans were outstanding. On the average, these borrowers were producing $108,000 per month in taxes. Or $1,296,000 in annual revenue to the Government.

Obviously everyone, the SBA, the Government, and small business community were all coming out way ahead. I know today that my colleague from the Money Store has more statistical data to share with you about the positive effects of the program. Let me just say that more than a 2-percent guaranty fee simply will not work, and, quite frankly, I do not think it's needed.

Next, you should know that funding levels for the SBA guaranty business loan program are now critically low. This year the program could run as much as $600 million short in guaranty authority based on small business demand and the current number of lenders using the program.

The scarcity of guaranty authority is already causing delays or outright cancellation of lender commitments, forcing small businesses to halt expansion. In some cases lenders are providing short-term interim financing until a guaranty loan can be made. This means double documentation, more time, more expense for the small business borrower, and greater uncertainty for both lenders and borrowers.

Obviously, this problem is more than just an inconvenience. The bottom line is that it's becoming increasingly difficult to do our job of providing long-term financing for small businesses.

As has been previously mentioned, the SBA has already begun to tighten credit standards and ration funding. Effective February 10, SBA issued a memorandum indicating that debt refinancing will no longer be fully guaranteed. But the law recommends that refinancings are an acceptable use of proceeds.

We believe that this directive is an inappropriate effort to ration the funds SBA has left for the rest of the fiscal year, and even with this prohibition, the SBA estimates that they will still be about $200 to $400 million short in guaranty authority.

Determining what is an appropriate level of funding, especially during static budget conditions, is difficult. My guess is that a $3.2 billion appropriation is the minimum needed to handle current 7(a) demand, assuming normal credit standards by the SBA, along with the projected demand for the international trade loans, the miniloan program, and then to project a normal growth through fiscal year 1990, we probably need to increase that by some amount, maybe as much as $3.5 billion.

The Small Business Administration is an excellent Government agency that helps our Nation's entrepreneurs get started and helps keep them going. The Small Business Administration and its lending programs remain a wise investment of public moneys. Community bankers like myself are willing to work toward improving a program that both increases the opportunities of thousands of American Small Business people and provides job opportunities for millions.

The SBA 7(a) lending program is a program that works and hopefully we can keep it that way. Mr. Chairman, I would like to thank you for calling this hearing on a very important small business issue, and I want to thank you for allowing me to participate.

I want you to know that the independent bankers are looking forward to working with you and the committee on these issues.

[Mr. Wilkinson's statement may be found in the appendix.]

Chairman LAFALCE. Thank you very much, Mr. Wilkinson. To speak on behalf of the National Association of Government Guaranteed Lenders, we have the executive vice president, Mr. John Wagner.

TESTIMONY OF JOHN C. WAGNER, EXECUTIVE VICE PRESIDENT, THE MONEY STORE SERVICE CORP., ON BEHALF OF THE NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS [NAGGL]

Mr. WAGNER. Thank you. I'd like to thank Chairman LaFalce and the other members of the House Small Business Committee for giving us the opportunity to offer some perspective on some of these small business lending issues today.

Certainly, I'd like to endorse both the broad perspective and specific comments of the chairman regarding the current needs of the Small Business Administration financing issues.

My name is John Wagner. I am the executive vice president of the Money Store Service Corp. The Money Store has been the larg-

est lender of SBA loans since 1983. Today, I'm representing the National Association of Government Guaranteed Lenders. I was on their original board of directors, and have remained quite active in their affairs.

The SBA has changed a lot in the 1980's. I joined the Money Store in 1981 and have been able to see some of these changes first hand. The SBA has changed its focus and improved its quality. The results of these changes essentially are a greater economic impact—I will be addressing that more specifically—and, furthermore, lower loan losses.

Right now, loan losses in the SBA portfolio are about 3.7 percent of average portfolio size. That is comparable to the losses that small- and medium-size banks are reporting on their general commercial loan portfolio. Small- and medium-size banks are reporting between 2.0 and 4.6 percent compared to SBA's 3.7 percent. A 3.7-percent loss on SBA loans is particularly impressive because the SBA loan is a much longer term loan. You would expect it to have more losses because of an essentially higher risk with longer-term loans.

Yet, the contrary seems to be true. As a result, we are attributing much of this to the quality loan standards that the SBA implemented in the 1980's.

In addition to higher quality the SBA has already cut its program costs considerably. The overall level of funding is 31 percent lower than it was in 1980. Guarantee fees have doubled, guarantee percentages to the lenders have been cut, and staffing and other overhead costs have been cut drastically as well.

Through it all, the lenders who are active have worked with the SBA to try to maintain a flexible and responsive program. The obvious uncertainty about the future of the agency of a couple of years ago has been resolved. Suddenly, they've found a lot of lenders getting involved in the program. As you heard, the demand is outstripping supply by a wide margin.

If you think about it, a $500 to $600 million shortfall in funding by the end of this fiscal year—about 7 months hence—represents the equivalent of one full quarter's lending allocation for the next fiscal year. So, we'll be in a position where we're going to have to tell our borrowers: "Congratulations, your loan's approved. Now you only have to wait 3 or 4 more months to get your money." I would submit that is not exactly consistent with the objectives of the program.

At the same time, trimming the Federal deficit is a high priority on everyone's list, and the chairman had referred to the idea that we have to look at our allocation of resources more carefully. I particularly was taken by his comment that we must stop viewing all Federal expenditures as the same, that we must change our system to reflect the benefits of spending which constitute an investment in the future, and give priority to that type of spending. I particularly like the word "investment."

It's fairly easy to identify the cost of social policy—the accountants can do that for you. But it's much harder to identify the benefits of a program because there's so little analysis done on that side of the equation.

Ladies and gentlemen, we have some preliminary data which indicates that the economic benefits in terms of additional tax revenues more than offset the costs of the SBA 7(a) program. The Money Store had two professors from the California State University, Dr. Dale Pletcher and Dr. Dennis Tootelian, do a survey of its borrowers. Their objective was to assess the economic impact, the economic results of those small businesses after they had their loans at least 2 years.

The results we found to be startling.

Mr. MCDADE. Just let me interrupt a minute. What was the number that was in the survey group?

Mr. WAGNER. We had surveyed 840 some odd borrowers. There were 200 some odd responses. The report is in the materials that were distributed, sir.

Mr. MCDADE. I didn't see it in this page, and I wanted to get the number on the record.

Mr. WAGNER. The results we found surprising. We found that after the borrowers had their loans about 2 years, sales were growing at an annual rate of 35 percent. That's just not a change from point A to point B, that's a rate of growth, 35 percent growth. Pretax profits were increasing 16 percent, and employment was increasing 16 percent. With all of this increased sales, profits, and employment, tax payments to Federal and State agencies were increasing as well. State taxes were increasing by 25 percent per year and Federal tax revenues by 75 percent a year. In terms of absolute dollars, this means that each borrower is paying an additional $6,500 each year, more than he was 2 years prior to getting his SBA loan.

These benefits don't include any kind of secondary economic benefits. The greater economic activity of our borrowers also affects their suppliers. The suppliers' profits, their employment, their tax payments were going up as well. Essentially, you've got a ripple effect throughout the community that can possibly be several times larger than any kind of specific benefit identified in our survey.

We regard the Money Store survey as an excellent preliminary step, but obviously it has some limitations. We're talking about a sample of one lender—other lenders around the country might have different results. It's not a long-term study over several business cycles, and the increases may not be solely attributable to just the SBA program. Nonetheless, this study represents one of the first times that quantifiable benefits associated with SBA lending have been specified.

Last week the National Association of Government Guaranteed Lenders initiated a broader survey to include more lenders in more parts of the country. We're confident that this will validate the conclusions of this preliminary survey.

The chairman had referred to the idea of investment. You gentlemen essentially are part of the investment management team for the Government. You are always asking the question: "Is a program a prudent use of the Government's money? Does the economic benefit equal or exceed the costs of, for example, the SBA program?" I've included in your materials an exhibit which answers that question quite affirmatively.

One of the standard text book methods for analyzing investment feasibilities is the net present value approach. I won't get into all the details. What it does is compare the benefits of the program—the tax revenues—against the cost of the program. The SBA had presented to Congress a couple of years ago a report which identified the specific cost per loan. That covers all of the direct costs of the SBA's finance and investment division, plus allocated overhead. It includes a substantial factor for loan losses.

In our analysis we have taken the benefits of SBA lending, that is, the tax revenues, and we've reduced those. We've taken the cost of the SBA program in our presentation and increased them. So, we've reduced the benefits and increased the costs. We've applied this net present value analysis, and the results come out quite positive.

It was pointed out to me today by one of the authors of that SBA cost survey that we had overlooked something. We had overlooked the impact of the guarantee fee. Essentially, this is another benefit that would add $16,000 to the results of the work sheet that I presented, which is on a $1 million basis.

In addition to covering the costs on $1 million of the Government's money, this program in our analysis would generate an additional $87,000. In addition to that, the SBA guarantee fee would add another $16,000.

So, the conclusion is clear. There's a substantial benefit to the Government from the SBA program. So, what needs to be done at this point? Perhaps increasing your investment in this program would be warranted. Certainly the demand is there.

The substantial backlog is really having a tremendous impact. The SBA has begun credit rationing recently by not allowing refinancing of existing debt. This has really had a very telling impact on many of our borrowers. I'm hearing from NAGGL members around the country that borrowers who would have been welcomed into the program a couple of months ago are being screened out now as part of the SBA's credit rationing efforts.

Additional funding will definitely be required. How much? With a $500 to $600 million backlog by the end of this fiscal year, plus the current rate of growth and demand for the program, we estimate that $3.2 to $3.5 billion will be required in the next fiscal year to meet the need.

Now that's about the level of funding which the agency had at the beginning of this decade. The big difference now, though, is that the funds are being directed to a better quality borrower who appears to have a very positive economic impact.

If you have supported the objectives of the SBA previously, you have even more reason to justify your support at this time. The program is working better than it ever has, but we do need an investment decision from you to make the additional commitment. For that, you will see both policy objectives, and better still, positive economic impact as result of your investment.

I'd like to thank you again for giving us the opportunity to address the committee.

[Mr. Wagner's statement, with attachments, may be found in the appendix.]

Chairman LAFALCE. Thank you very much, Mr. Wagner. The next witness appearing on behalf of the National Small Business United, will be Mr. Lewis Shattuck.

TESTIMONY OF LEWIS SHATTUCK, PRESIDENT, SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND, ON BEHALF OF NATIONAL SMALL BUSINESS UNITED [NSBU]

Mr. SHATTUCK. Thank you, Mr. Chairman. I am the president of the Smaller Business Association of New England, a private nonprofit association of some 2,000 companies in New England and also the secretary of National Small Business United, which is an association of some 50,000 members headquartered here in Washington.

I've been with the Smaller Business Association of New England for over 2 decades, so I've followed the ups and downs of the SBA for quite some time and I want to commend the committee for the strong support of the agency and for virtually saving it a few years ago.

At a recent legislative retreat that NSBU held in Florida, the number one priority was to fight the Federal deficit. First and foremost, NSBU supports elimination of the deficit, and to recognize that such elimination may require revenue increases. We also support a 2-year budget, because we think the SBA could run better with a 2-year budget through better money management, as well as the line item veto and/or enhanced rescission.

I would like to also state that of the total 22 priorities that were voted on at the retreat, SBA's growth and enhancement as an agency, maintaining it as an independent agency, and improving the SBA was number six. This is pretty high considering the fact that the agency is not overtly threatened, but certainly, Mr. Chairman, the recommendations that have been sent to you by OMB certainly covertly kill the agency in terms of its loan programs, no question about it.

If we are to sustain in this country, the entrepreneurship startups and the economic development that we have seen, we can only hope that the agency will be able to have the economic loan ability that it's had in the past. Incidentally, if all Government agencies had suffered the cutbacks experienced by the SBA since 1980, we would not have a deficit today, Mr. Chairman.

SBA total employment today is some 3,645 people. I don't think many people realize what a small agency it is in comparison to other agencies. There were only 4,400 employees in 1979. For all the economic development and management systems that the agency produces, it has done it since 1979 with a 20-percent reduction. I don't think any other agency has had that much reduction and been able to sustain its productivity.

At NSBU we support the continuation of the current SBA programs with the exception of the direct loan program. My testimony says at current funding levels, but I think in fairness to my colleagues from the finance community, SBA loan demand has increased substantially as interest rates increase, so will loan demand on the SBA.

We are faced with, if not a recession, a slowup in economic activity which will further increase the demand on SBA loans.

Third, the SBA has done such a great job in selling the banking community on using SBA guarantees that demand has substantially picked up as has been indicated.

Last, by increasing the ceiling on SBA loans to $750,000 from $500,000, a 50-percent increase, and not increasing funding level, all the agency is doing is running out of money faster, which has been evidenced by the other testimony here today.

I totally concur with my colleagues, that raising the guarantee fee will just put the SBA totally out of business. I would, however, entertain the possibilities that the guaranteed percentage of 75 percent might be reasonable. I say that because the current preferred lending program is at 75 percent, and that has become very popular in the banking world.

I'm concerned, Mr. Chairman, by the recommendations in the budget in terms of fees. I think OMB, in relation to SBA, compared to other agencies, has "feeitis." I don't see the OMB demanding fees from other agencies to the extent that they do the SBA. I think a lot of them are really petty to say the very least. OMB doesn't demand fee structures out of the Coast Guard if they rescue a boat. We don't go around and demand fee structures out of other people. I don't know why the SBA should be singled out for all these really picky fees. I think they're a bother to collect. They probably cost more than they'll ever return to the Treasury. I think this whole fee structure syndrome has been overdone by the OMB, Mr. Chairman.

Last, Mr. Chairman, I would like to vehemently support the continuation of the Small Business Development Centers. If there is a program that has worked beyond our fondest dreams, it's SBDC's. SBDC's in 1988 provided some 67,000 businesses counseled, some 10,700 training programs, and 775,000 training hours. Management development used to be done by the agency itself. Management training has been given over to the private sector through the State-supported SBDC's. They have worked very well.

As a matter of fact, the leveraging of SBDC's in areas has been remarkable. I know that in the great State of North Carolina, the SBDC there has produced increase in sales of over 60 percent of companies that have gone to SBDC's—way above the State's average. The same is true with the number of employees increased in North Carolina because of SBDC's work in this area, Mr. Chairman.

So, NSBU very strongly supports a strong SBDC structure. They have done wonders in providing management assistance that the agency could not possibly do and they've done it at a very, very fair rate. In fact the return is almost $2 for every $1 appropriated to the SBDC program, Mr. Chairman.

So, with that in mind I would hope that you would restore full funding to the SBDC program and allow it to do its job of promoting entrepreneurship in this country, Mr. Chairman.

One last point, sir, in terms of the agency itself. I know that you are interested in generating greater productivity on the part of the agency, and I would suggest that the committee look at the possibility of reorganizing the regional offices and diminishing the

power of the regions over the district offices. After all, the district offices are the operational levels, and the regions are just one more layer of bureaucracy. I would suggest that the district offices be given more authority and responsibility since they are on the front line. If they don't do the job, you can always replace the District Director. Let's have less governance within the SBA and more direct payback to the small business community.

Thank you very much, Mr. Chairman.

[Mr. Shattuck's statement may be found in the appendix.]

Chairman LAFALCE. What if we were to direct the abolition of all SBA's regional offices?

Mr. SHATTUCK. I think that might be a good idea, Mr. Chairman.

Chairman LAFALCE. Sometimes I think it might be too.

Mr. SHATTUCK. Put the people out where the small businesses are, Mr. Chairman.

Chairman LAFALCE. Sometimes I wonder if they do anything other than try to get publicity.

Mr. SHATTUCK. I think that one of the problems the agency has had is not enough publicity of the right kind, sir.

Chairman LAFALCE. I'm not talking about the agency, I'm talking about the regional offices.

Mr. SHATTUCK. Right.

Chairman LAFALCE. Mr. Ireland.

Mr. IRELAND. Thank you, Mr. Chairman. We've heard some outstanding testimony. Mr. Wagner's description of what's happened in the 1980's is impressive and a story that does need some publicity.

Mr. Wagner, in the study by the Money Store, didn't you look into the relationship of the lending going on and the kind of businesses that are growing and are interested in this kind of lending. I refer to that because so often we hear that old song, 7(a) guaranteed lending touches less than ½ or 1 percent of the universe of small business. I think those of a little bit more knowledge know that isn't the market. The market is those who need the kind of credit and what kind of penetration do we have there. Do you have any information along that line?

Mr. WAGNER. I'm not quite sure if I understand your question.

Mr. IRELAND. The question is in assessing whether small business lending by the SBA, principally the 7(a) program, really touches the market for capital lending, is what it amounts to, I guess, long-term lending in America, whether the SBA is really doing a job on the market that's there. The story we hear is, quite candidly, the Small Business Administration lending programs don't touch the small business universe that needs it.

Mr. SCHUSTER. If I might, Mr. Chairman, I recall a very thorough GAO study of 4 or 5 years ago which suggested that as much as 40 percent of all long-term small business debt in America carried with it an SBA guarantee.

Mr. IRELAND. That's right.

Mr. SCHUSTER. I was referring, I thought somebody, among those that you all touch, had been made a more recent study of that, perhaps not. I guess not.

Mr. WAGNER. Not in the same style that the GAO study was done. Obviously, from the Money Store's, or any lenders' perspec-

tive we're interested in attracting as many qualified borrowers as we can, but I don't know if any specific studies as to the characteristics of borrowers nationally.

Mr. SCHUSTER. I do know, Congressman, where one would start. If one went back to 1953 when the agency was established, and since then tracked all of the successful small businesses that initially or during their lifetime received assistance from this agency, it would be absolutely phenomenal. It would run off the page, and where does one stop? Do you continue to take credit for the Apple Computer success story or some of the others, to take more taxes than the agency costs?

Mr. IRELAND. The problem, and that's why I asked the other question, is we do not necessarily get our story across. Certainly part of the story is the enhanced efficiency of the agency over the 1980's, because that was a black eye for us before. In that regard, if I may Mr. Chairman, one more question?

Chairman LAFALCE. Yes.

Mr. IRELAND. You mentioned the loan loss ratios and the experience currently at 3.7 percent. Do you recall what that was in the late 1970's, how that has changed in the 7(a) program?

Mr. WAGNER. No, sir; I would have to talk with the SBA people to perhaps get that information. I would be glad to provide it to you if you would like it in the record.

Mr. IRELAND. Oh, no; we will get it, if you did not have it with your——

Mr. WAGNER. I do not have it.

Mr. IRELAND. I think to go the heart of it, for the record, for every $1 million that we put out in this guarantee, the real cost to the Government is that loan-loss cost. The only out-of-pocket cost in the Mickey Mouse accounting system that the Federal Government has, makes it seem that this might fall in the category of a grant program, which it certainly is not.

Mr. WAGNER. That was much the focus of my presentation on the net present value concept, which relates the costs and the benefits together and equalizes them in the standard investment analysis techniques, and we had come up with a very positive result.

Mr. SHATTUCK. Mr. Ireland, I think that the loan loss ratio, 3.7 percent, is too low.

Mr. IRELAND. I think so, too. As you know, the dog that does not have any fleas ain't getting around.

[Laughter.]

Mr. SHATTUCK. That's right. I think it is too low. I do not know what the committee felt would be acceptable back in 1953, but I bet you it was a lot higher than that.

Mr. IRELAND. Well, it is an exciting program when you realize that it does not have the problems of direct lending and everything else.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you very much. Mr. Hayes.

Mr. HAYES. Thank you, Mr. Chairman. The lateness of my arrival sort of renders me somewhat helpless in trying to discuss the issues.

But I was just wondering, it might be in the testimony, when you talk about improvements of a small business program there are

two areas that constantly keep coming up when it comes to the problems that are confronted by minority business, and that is the inability to get bonding and the constant increase in insurance rates. Do you have any suggestions as to how we might be able to assist them in these two areas, which have served as a deterrent in most instances, and they've been unable to perform?

I'm not only interested in entrepreneurship; I'm interested in the jobs that come as a result of their being able to get into business. I just ask that as an off-the-wall kind of question, if anyone from the banking industry can help us.

Mr. SCHUSTER. I think, Congressman, the problems and impediments you raise really would confront or would be representative of the entire small business sector. I was with SBA when the surety bond guaranty program was established. I know from firsthand that program helped a significant number of small businesses obtain bonding. Therefore, a bigger piece of the procurement and construction pie.

I have not followed the OMB's whittling of that program. But, I would not be surprised if it, too, has suffered along with the guarantee levels and other things as well.

Mr. HAYES. Some of the insurance rates have really skyrocketed.

Mr. SCHUSTER. Unbelievable.

Mr. HAYES. It's unbelievable.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you. Mr. Hancock. All right, thank you.

Gentleman, I want to thank you very much for your input, but we have a serious problem. We have an authorization level that is livable for this year. We have an appropriation level that is not. So, we need enhanced appropriations for this year, we need enhanced authorizations and appropriations for the future, and we've got a selling job to do. Because it sounds as if it is a direct budget outlay and a direct expenditure, as opposed to an investment on which there is going to be a return.

So, it is not enough to preach to this choir, you are going to have to help us preach to a larger choir. You are going to have to help me reach OMB. You are going to have to help me reach the new Administrator of SBA when she comes in, and say that is a first opportunity for you to make a difference, so that she can then go to work with OMB.

We have to convince the political people within the Bush administration that if they want to make significant inroads in the small business community and show a difference, that this is one way that they can show a difference. You can do that better than I can do that.

We have to convince the budget committees more than the House and the Senate, both Democrat and Republican. I do not think there is any problem with Senator Bumpers and myself and the ranking minority on either side. I think we are proceeding in a pretty bipartisan basis. We are going to have to go the appropriations committees. Their hearts are with us, but they have competing demands, given the budgetary restrictions that they have to operate under.

So, it is not enough to just come here and testify today. I mean, I had you come testify today knowing what you were going to say, knowing that I was going to be fully in agreement with you, and just laying the foundation for future action. That is all we have done today. We have laid the foundation for future action. But by God, we are all going to have to do a lot more if we are going to solve this problem.

As somebody said—I think our first witness—right now we are being victimized by our successes. We have developed this program where it has gotten off the ground, and it is functioning pretty well. We have created a certain enthusiasm in the private sector too, about its future ability to function. We cannot pull the rug from underneath the feet of the individuals who have become believers once again.

I think the morale of the agency has improved tremendously over the past 2 years. I think the esteem of the agency in the past 2 years has improved significantly for a combination of reasons: Abdnor's stewardship, and the stewardship of Senator Bumpers, and myself. Now we have to build on that, rather than backtrack on that. But, we cannot do it alone.

Your testimony today is good, and it was very adequate for today, but it is inadequate for the battles we have to fight tomorrow.

Mr. IRELAND. Mr. Chairman.

Chairman LAFALCE. Yes.

Mr. IRELAND. I noticed that the Supreme Court made a recent ruling concerning the Community Redevelopment Act, and, as you well know, told the Continental Bank in Chicago that they did not have their act in order as far as serving their home community, particularly the underclass areas that were not faring so well in our economy, and flatly told the Continental and denied their acquisition of an Arizona bank, sending some tremors through the banking industry that perhaps we need to pay some attention to doing a better job in that area.

It would seem to me that this 7(a) program, and particularly, as Mr. Shattuck says, with such a low-loss ratio for long-term lending of this kind, whether the 7(a) program is not a great tool for helping the entrepreneurs in our most devastated economic areas, that this then ought to be a place for some reaching out.

If you could help us about what, if anything, is going on. Obviously not enough, or we would not have a Continental getting slapped on the wrist.

Mr. WILKINSON. There are several banks that have been examined recently by regulators, in line with their CRA or the Community Reinvestment Act statement. One thing regulators are looking at is how active institutions are in the SBA lending program. My concern is that lenders get involved with the 7(a) program because it is good, and it works well, and they do not get involved with so that they can meet their CRA needs.

I would say that the bulk of the institutions involved are using the program for the right way. It is sort of a secondary result in that it serves those CRA needs. But my concern there is that the lenders are actually involved for the right reason.

Mr. SCHUSTER. I certainly echo what Mr. Wilkinson said. I think you are very correct, Congressman, in perceiving the 7(a) guaranty program as a tool and vehicle for a bank to meet its CRA responsibilities. That is without question one of the major tools that the banking industry has to meet and still accommodate the regulatory pressures and environment of safety and soundness.

I have been worried about the budget limitations that the agency is placing right now. I have confirmed that human nature is that it is almost impossible today to get a large loan approved by SBA, because that wipes out their budget for the month, and it is normally the larger recipients that are creating the jobs, the major jobs, that are making investments in inner-cities and so on and so forth. If we wipe them out of the program and availability just because of dollars, the CRA problems are even going to get bigger.

Mr. IRELAND. Thank you.

Mr. Chairman, Mr. Conte had a series of questions. Could we submit those and ask the panelists if they might respond?

Chairman LAFALCE. I do not know.

Mr. IRELAND. After your audit.

Chairman LAFALCE. After my audit.

Mr. IRELAND. Thank you.

Chairman LAFALCE. If there are no further questions or comments from any of the committee, the committee will adjourn.

[Whereupon, at 11:14 a.m., the committee was adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF REP. JOHN J. LaFALCE, CHAIRMAN
COMMITTEE ON SMALL BUSINESS

HEARING ON "SMALL BUSINESS ADMINISTRATION'S
BUDGET FOR FISCAL YEAR 1990"
February 22, 1989

Today's hearing is on the Small Business Administration's budget request for fiscal year 1990.

Although President Bush sent to Congress a budget-type message on February 9th, as of this date we have received a budget document and request for SBA only from the outgoing Reagan administration.

The only official pronouncement concerning the SBA is the President's intention to nominate Susan Engeleiter of Wisconsin as Administrator, presumably sometime in March. Meanwhile everything else appears to be "on hold."

This "on hold" attitude brings us to the main topic of today's hearing: demand versus availability of 7(a) general business loans.

In the last Congress, we made the decision to "beef up" the SBA guaranteed loan program. Frequently it is the lack of capital which prevents a small business, or a prospective small business, from carrying out its part of job creation or assisting with correcting our balance of payments problem by exporting.

On a bi-partisan basis, we beefed up the program by, for example, increasing the maximum loan amount per borrower, and at the other end of the scale by establishing a new mini loan program.

At the same time, Administrator Abdnor initiated a campaign to encourage banks to participate in the program. And, I might note, it accomplished its goal.

These SBA promotional efforts, coupled with a changing economy, led to a surge in demand. While previously we simply discouraged the lenders from generating loans and thus stayed within a reduced budget, at the end of the last fiscal year, in August and September, we had to ration credit.

That situation continues today, and it will probably get worse as implementation of the legislative changes will increase loan usage even more.

This shortage of loan guarantees and its resulting adverse impact is very disturbing. Time after time we have shown that SBA loans more than pay for themselves in the return to the government of tax dollars. Yet the benefits are ignored.

Even more disturbing is that without having to appropriate any additional money, we could shift some loan guarantee

authority to this program from others which currently are not experiencing such a high demand. But OMB does not want to make this change.

This brings us to next year's budget. The Reagan request not only doesn't provide any relief, it goes in the wrong direction. It proposes to freeze the guarantee level at the amount of 1988 actual expenditures. In addition, it would reduce the percentage of guarantee and thus shift more risk of loss to the lender, while at the same time charging borrowers an up-front or application fee of five percent, instead of the two percent charged today.

If adopted, I believe that this would effectively kill the guaranteed loan program --- and possibly this is the intended result.

Having failed in an outright attempt to abolish SBA, can the administration be seeking to do it piecemeal?

I could not quarrel with anyone who comes to that conclusion, particularly after examining other parts of the budget request, such as:

- Eliminate all direct business loan programs (that is, handicapped, minorities, veterans and the new 8(a) program);

- o Eliminate the disaster loan program;
- o Change MESBIC program to guarantees instead of direct purchases of debentures and preferred stock. This sounds innocuous enough, but what it really means is that there would be no more equity investments in MESBICs by SBA and that the cost of their initial debenture money would increase about 30%;
- o Repeal the Small Business Development Center management assistance program; and
- o Sell $300 million in loan assets in FY 1990 and all disaster loans by end of FY 1994.

I not only will fight any attempt to dismantle SBA, I intend to fight for increases in SBA programs which not only benefit small businesses but also our economy. We must stop viewing all Federal expenditures the same; we must change our system to reflect the benefits of spending which constitute an investment in the future, and give priority to that type of spending.

I place SBA's financial assistance programs, and in particular guaranteed loans, in this category. I have already written to Chairman Panetta at the Budget Committee to seek their help in expanding the 7(a) program to meet demand, and I solicit the support of every member of this Committee for as long as it takes.

Do other members have statements?

STATEMENT OF HON. JAMES H. BILBRAY
COMMITTEE ON SMALL BUSINESS
FULL COMMITTEE HEARING ON SBA BUDGET REQUEST FOR FY 90
February 22, 1989

Because Congress has yet to receive an updated SBA budget request from the current administration, my concerns over the various programs administered by the SBA will have to be relegated to what is spelled out in the Reagan budget.

One program that I hope will be discussed at today's hearing is Small Business Disaster Loans. Under the Reagan budget, the administration is proposing to eliminate this program which provides loans to homeowners and businesses for uninsured losses suffered as a result of physical disasters.

I am also concerned with the administration's commitment to supporting the direct loan and guaranteed loan programs. In my district, I know that these programs are often critical for sustained economic development, and the need for loans often outstrips the supply.

SILVIO O. CONTE
FIRST DISTRICT, MASSACHUSETTS

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Opening Remarks of the
Honorable Silvio O. Conte
7(a) Hearing
February 22, 1989

Thank you Mr. Chairman. All of us on the Small Business Committee are very concerned about encouraging and sustaining small business growth. We are also concerned about balancing the budget, holding the line on taxes and reducing the federal regulatory burden. One way in which the federal government can effectively help small business is through the 7(a) guaranteed loan program which accounts for 98% of the SBA's loan action. This is a debt capital program that requires reasonable collateral and an income stream from the borrower.

In prior years there were unused funds in the 7(a) program. Now, however, demand is currently exceeding capacity. Normally the SBA disburses about $600 million per quarter for $2.4 billion annually. They may now need $700 million plus per quarter or $2.8 to 3 billion annually. In its FY 1990 budget proposal the SBA proposes to level fund the 7(a) program as well as increase user fees to 5% and reduce the guarantee threshold and percentages.

I look forward to the testimony of our distinguished panelists today and to their suggestions regarding the 7(a) program and what the banking industry can do through its own initiatives to meet the needs of America's small businesses.

STATEMENT OF THE

AMERICAN BANKERS ASSOCIATION

ON

THE SMALL BUSINESS ADMINISTRATION'S
BUDGET REQUEST FOR FY 1990

PRESENTED TO

THE SMALL BUSINESS COMMITTEE

U.S. HOUSE OF REPRESENTATIVES

BY

DERYL K. SCHUSTER

FEBRUARY 22, 1989

Mr. Chairman and members of the Committee, I am Deryl K. Schuster, President and Chief Executive Officer of the Kansas Bank Corporation (a multi-bank holding company), and serve as CEO, President, and/or Director of banks in Wichita, Liberal, Abilene, Elkhart, Harper, and Syracuse, Kansas. I am past Chairman of the American Bankers Association's Small Business Banking Committee, ABA's representative to the SBA's National Advisory Council, the National Small Business Banker Advocate of the Year in 1984, and currently serve on the ABA's Government Relations and Banking Leadership councils.

The combined assets of ABA members comprise approximately 95 percent of the total assets of the commercial banking industry. While our members range in size from the smallest to the largest banks, some 85 percent have assets of less than $100 million. I welcome the opportunity to present ABA's views on the Small Business Administration's Budget Request for FY 1990.

Mr. Chairman, the banking industry has been a major participant in various SBA programs for years. Approximately 10,000 banks have been involved in the SBA loan programs. A primary example is the loan guarantee program, which was authorized by Section 7(a) of the Small Business Act of 1953. This program benefits the national economy and small communities through the jobs created and

revenues produced by the small businesses that use the program.

As you have stated very well in the past, Mr. Chairman, small businesses are major creators of new jobs. They make substantial contributions to our national economy. The SBA loan guarantee program is an extremely important tool which enables commercial banks to assist all eligible small businesses, but especially new, start-up companies and expanding companies all desperately in need of long-term financing.

Kansas Bank Corporation's banks are active in SBA programs. I personally have been involved with the SBA for over 20 years, both as District and Regional Director of SBA Region VII and as a private banker. When I left the SBA in 1977, I was well aware of SBA benefits to small businesses and their communities and, as a result, steered my banks towards serving small business and SBA involvement. Our banks have been heavy SBA lenders for the past 12 years and are currently Preferred and Certified Lenders serving rural Kansas and parts of Oklahoma and Colorado. Through our SBA loans, we currently serve over 100 businesses with about $10 million outstanding in SBA guaranteed loans. During our 12 year history as SBA lenders, we have served many small businesses from start-ups to those expanding, and even to those struggling to survive during difficult economic times.

The ABA has consistently supported the 7(a) loan guarantee program because it benefits small businesses by providing this very important long-term financing. In 1985, during the debate over reauthorization of SBA, the ABA supported increasing the guarantee fee for these loans from 1 percent to 2 percent and reducing the maximum guarantee from 90 percent to 85 percent for loans over $155,000. These changes were made and are now law (P.L. 99-272).

Due to the importance of the 7(a) program to the small business community, the ABA opposes further attempts to reduce the guarantee loan program to FY 1988 actual approved levels and the proposal to increase the guarantee fees from 2 percent to 5 percent.

The SBA guarantees are important to banks because the guarantees permit the industry to assist this fragile, yet important segment of our society and still protect the safety and soundness of the financial institutions and satisfy bank regulators. With the guarantee programs credit is provided to small businesses that could not otherwise secure credit, especially long-term debt financing. For expanding small businesses, the guarantees permit longer-term amortization of loan repayments, thus reducing cash flow pressure and contributing to business growth and job creation which would not happen without the guarantee programs.

We believe it is desirable to maintain the public policy in support of small business, and it is the consensus of the ABA's Small Business Banking Committee that lowering current guarantee levels for financial institutions and raising the fees for the loans would reduce participation in the program. Therefore, the ABA Small Business Banking Committee opposes the Administration's budget proposal to reduce the maximum loan guarantee to 75 percent for loans over $75,000 or 80 percent for loans of $75,000 or less.

My predecessors on ABA's Small Business Banking Committee have testified before this Committee. Their testimony concerning loan guarantee fees remains important:

> "The 7(a) Loan Guarantee Program already transfers much of the administrative and servicing expense to the lending banks. This results in a cost of delivery to the Federal Government which should compare very favorably with the efficiency and cost of other federally-sponsored economic development or public assistance programs. To help fund program costs, we support a guarantee fee of 2 percent. However, we think any increase above that percentage would retard bank participation in the program."

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The ABA's Small Business Banking Committee has reaffirmed this position in all subsequent years. Increasing the guarantee fee, whether charged to the borrower or the lender, will retard bank participation. In fact, the proposed guarantee increase would harm the very businesses that the Agency was created to assist.

ABA's Small Business Banking Committee does not oppose the sale of SBA's loan portfolio in principal. However, we believe strongly that such sales should only be authorized on the best possible terms and only if the sales benefit the ongoing SBA loan programs. We urge this committee to examine carefully all proposals to sell SBA's loan portfolio, and to support such sales only if they will benefit the goal of continued Federal support for small business.

Mr. Chairman, a number of times in the past eight years a representative of ABA's Small Business Banking Committee has appeared before this committee and others in the Congress to express concern about the support for the SBA which we believe essential, particularly the 7(a) loan guarantee program. Representatives of the ABA have commented on the need for higher levels for loans in the guarantee program. Mr. Chairman, I want to congratulate you and your colleagues for increasing the lending limit to $750,000 and on making other needed improvements in the

program. You have been very successful. We applaud the changes in the programs that you and this committee have proposed and seen enacted. We also applaud the administration of SBA in recent years which has re-established confidence in the agency and its programs.

Unfortunately, Mr. Chairman, this program, particularly the 7(a) guarantee program, may be facing problems because of your success, and in fact, the program is in the process of being penalized for its success. As we have stated in the past, when there is confidence in the agency, when the programs run smoothly and the administrative burden is reduced, then participation increases. We are facing such a situation today. As you are aware, the demand for 7(a) guaranteed loans is outstripping the allocation of guarantee authority that the Congress has provided for these loans. That demand is not a failure of the program; it is a mark of the success of the current program.

The proposal to reduce the guaranteed loan program levels to FY 1988 actual approved levels would affect a number of SBA programs, but its primary impact would be on the highly successful general 7(a) program. According to FY 1988 year-end totals, guaranteed programs comprised all but

671 of the 17,139 SBA loans made, or about 96 percent.[1] In dollar terms, guaranteed loans make up 98 percent of total SBA activity.

As we have testified in 1985 and 1987, the ABA wholeheartedly supports the 7(a) program. Year after year the ABA's Small Business Banking Committee rates 7(a) as the most important and effective SBA program, and as more banks learn about the program from the SBA and ABA, and as the program is stable and workable, demand increases. As such, in the first two months of this fiscal year, before the SBA placed strict limits on 7(a) approvals, demand was 52.6 percent[2] higher than last year.

This clearly shows that there is a need for more long-term debt financing than is presently available. The Federal government, through a relatively small investment in SBA staff and resources, is able to mobilize a force of about 10,000 banks to offer otherwise unavailable loans to small businesses. For local communities this means jobs, economic development, an increase in the tax base, and perhaps even survival of the community. Everyone wins.

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[1]Small Business Administration: Office of Finance and Investment

[2]Small Business Administration: Office of Finance and Investment

Mr. Chairman, in the short term we believe that reallocation of guarantee authority at the SBA can provide some minimal alleviation of the problem. However, in the longer term, given the budget pressures which are felt and appreciated by everyone, something more should be considered. We believe that a persuasive case can be made that the 7(a) program, utilizing banking industry resources, may well create more tax revenues than the SBA costs in total. Small business expansion, investment of capital, and new jobs create tax revenue. The guarantee levels now available, and which are likely to be available in the near future, are not sufficient to satisfy the need. A re-allocation of agency resources may be necessary.

In the past five years, despite the best efforts of Congress, the SBA has been reduced to a level that has hampered the agency's ability to deliver. Even with additional programs like Advocacy, Women's Business Ownership, and the increased volume in its core programs, the SBA's dollars have remained constant. Despite last year's increase in the guaranteed loan amount to $750,000 for most loans and $1 million for export related loans, overall funding did not change.

As an example of the effects of all this, consider the recent 7(a) problems. As a result of the 50 percent increase in 7(a) demand, the SBA's field offices have

imposed stringent restrictions on loan approvals. In some, if not most offices, loan approvals are being allocated on a daily basis; that is, there is a certain pot of money available -- if your loan is not approved today, it goes back to the stack for tomorrow's pot. Consequently, loan approval times have slowed to a relative standstill and the pile of unfunded loans gets bigger every day. Just this week, local offices were told to stop approving loans that involve any refinancing or debt consolidation, which eliminates a high percentage of normal SBA loans needed by small business. Over the past two years, the SBA's image and credibility has improved, but if the SBA continues on its present course, I am afraid it may have been for naught.

In conclusion, Mr. Chairman, the Federal government has crafted a program that works. The SBA has been a blessing for rural communities, for inner city entrepreneurs trying to redevelop neighborhoods, and for small businesses all over America. We can provide the Committee with numerous examples of SBA success stories; but let me cite just one.

In 1968, two professors from South Dakota State University founded a company called Daktronics, Inc. Literally started in a garage, Daktronics makes electronic scoreboards, voting systems, and signs. In 1973, Daktronics, through its local bank, got an SBA guaranteed loan to expand. Currently Daktronics is internationally

competitive; its electronic scoreboards were used in the 1988 Summer Olympics in Seoul, and 40 legislatures in 30 states use its voting system. This year, it will gross over $20 million and employ 342 people in a town of 15,000. Without the SBA's guarantee and their local bank's willingness to work with the SBA, Daktronics would still be in the garage.

Because of businesses like Daktronics, the ABA's Small Business Committee will continue to support the SBA and its programs. While we recognize the need to trim the Federal budget deficit, we believe that the SBA has given more than its share. If the SBA's ability to implement its programs deteriorates further, program participation and effectiveness will be drastically reduced because of uncertainty, frustration, and doubts about the agency. I don't think we should let that happen.

Mr. Chairman, we must satisfy the short term demand. The ABA is also willing to enter into discussions with you and whoever you believe would be important to consider what further opportunities there might be for assuring that sufficient credit is available for this very important component of the American business scene: small business.

The SBA lending programs in which our member banks are participating work quite well. Further reductions to these

programs will adversely affect the small business community and the jobs created by this important segment of our society.

I will be pleased to answer any questions that you may have.

STATEMENT

of

ANTHONY R. WILKINSON

SENIOR VICE PRESIDENT

STILLWATER NATIONAL BANK AND TRUST COMPANY

STILLWATER, OKLAHOMA

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

FEBRUARY 22, 1989

Mr. Chairman, my name is Tony Wilkinson. I am a Senior Vice President with the Stillwater National Bank in Stillwater, Oklahoma. Our bank, with $205,000,000 in assets, is located in a community with approximately 40,000 residents. Stillwater is the home of Oklahoma State University, six large industries and many small businesses. I also currently serve as President of the National Association of Government Guaranteed Lenders Inc.

I have been asked here today as a representative of the Independent Bankers Association of America (IBAA) who participate in the 7(a) guaranteed lending program. The IBAA is the only national trade association that exclusively represents community banks.

The number of community banks participating in the SBA lending program continues to grow, as bankers learn that an SBA loan is a useful tool in servicing the business borrowers' long term financing needs. As one of the top volume lenders in the country over the last several years, we at Stillwater National Bank have experienced the many benefits of the SBA guaranteed lending program in our community. Stillwater National Bank has earned the designation as both a Certified Lender and Preferred Lender.

The SBA loan programs were put to work in the 1950's as small business demonstrated a gross inability to enter the long term debt market. While these programs began some 30 years ago, the SBA guaranteed loan program remains as one of the very few sources of long term financing available to small business. The hard facts are that small companies without access to national capital markets are generally dependent on their banking relationships for financing. But as you well know, banks find it extremely difficult to offer long term credits since they are increasingly funded with short term deposits. By long term, I mean loans of up to 25 years, depending on what is being financed. That is the kind of term credit that is most useful to growing, expanding small business--for long term assets, like real estate purchases, expansion of plant or retail space, leasehold improvements, or the purchase of new machinery or equipment. It is precisely the kind of financing that helps small businesses grow and prosper, create jobs, and generate revenues for the government in terms of increased taxes.

My comments today will focus on two of the Administration's budget proposals for SBA, one being the funding level of the guaranty authority for the 7(a) general business lending program and the other being the proposed fee of 5%.

First, you should know that funding levels for the SBA guaranteed business loan program are now critically low. The program could run as much as $600 million short in guarantee authority, based on small business demand and the current number of lenders using the program. Although Congress has authorized about the same amount of guarantee authority over the last few years--about $2.8 billion--only $2.4 billion has been appropriated. But the authority is now being used at a much higher rate than before.

I am sure there are many reasons for the increase in demand. But whatever the reason, it is now clear that increased demand will cause regular disruptions in the availability of guaranteed loans for the near future. There just is not enough guaranty authority to go around.

This scarcity of guaranty authority is already causing delays or outright cancellation of lender commitments forcing small businesses to halt expansion. In some cases, lenders are providing short-term, interim financing until a guaranteed loan can be made. This means doubled documentation, more time and expense, and greater uncertainty for both lenders and borrowers. Obviously, this problem is more than just an inconvenience. The bottom line is that it is becoming increasingly difficult to do our job of providing long term financing for small businesses.

Effective February 10, 1989, SBA issued a memorandum from the Central Office indicating that debt refinancing will no longer be fully guaranteed. The law states that refinancings may receive a government guarantee of anywhere between 0-80%. The law recommends a high guaranty level and points out that refinancings are an acceptable use of proceeds. This SBA refinancing directive is an inappropriate effort to ration the funds SBA has left for the rest of the fiscal year. Even with this prohibition, the SBA estimates that they will still be about $200 - $400 million short.

Determining what is an appropriate level of funding, especially during static budget conditions, is difficult. My guess is that a $3.2 billion appropriation is the minimum needed to handle current 7(a) demand, (assuming normal SBA credit standards) along with projected demand for International Trade Loans, and a normal growth throughout fiscal year 1990.

I continue to be concerned about the way the SBA programs are viewed from a budget perspective. Only one side of the income statement seems to be reviewed, that being the actual outlays to operate the agency. But when does the small business borrower get credit for the economic benefits of its operations? SBA loans are not grants. The vast majority are repaid, at the same time jobs are being created and taxes are being generated. I strongly believe that one would find the SBA lending program to be a substantial net revenue program if political philosophies were set aside and ALL factors were reviewed.

In February 1987, I testified before the Senate Small Business Committee on the FY 1988 budget. As part of that testimony, I presented information concerning a study Stillwater National Bank had conducted in early 1986 on some of our borrowers, using operating information up through the end of 1985. While the information is a few years old, the results show some powerful results of the SBA loan program.

At that time, we examined 160 loan files of current and past SBA borrowers. Those 160 loans used $27 million of SBA guaranty funds. The borrowers had paid $227,000 in guaranty fees and the loan losses in 1986 amounted to only $111,000. We did a further sampling of 40 credits and found those 40 borrowers employed 460 people. These 40 borrowers had used $6.6 million in SBA guaranty funds. And $2.7 million in tax revenues had been generated during the next 24 month period out of all the outstanding loans. On the average, these borrowers were producing $108,000 per month in taxes or $1,296,000 in annual revenue to the government. Everyone, the SBA, the government, and the small business community were all coming out way ahead.

The current budget proposal also calls for an increase in the guaranty fee from 2% to 5%. This is a rehash of a similar proposal in 1987 to raise the fee to 4%. Testimony was heard at the time before both the House and Senate that clearly demonstrated raising the guaranty fee by 2% was not a viable proposal. There is not a

lending program today that could survive with a five point fee. These higher fees mean higher costs to the small business borrower and ultimately serve as a deterrent to using the SBA programs. We believe that this five point proposal works directly against the people and businesses the SBA was specifically designed to assist.

The Small Business Administration is an excellent government agency that helps our nation's entrepreneurs get started and helps keep them going. Certainly there is room for improvement in many of SBA's activities; however, the Small Business Administration and its lending programs remain a wise investment of public monies. Community bankers like myself, are willing to work towards improving a program that both increases the opportunities of thousands of American small business people and provides job opportunities for millions of Americans. The SBA 7(a) lending program is a program that works! Let's keep it that way.

Mr. Chairman, I would like to thank you for calling this hearing on a very important small business issue. I want you to know that the Independent Bankers are looking forward to working with you and the Committee on these issues.

STATEMENT OF

JOHN C. WAGNER

Executive Vice President

The Money Store Service Corporation

Sacramento, California

on behalf of

THE NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS

on

SMALL BUSINESS ADMINISTRATION'S BUDGET

before the

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 22, 1989

Mr. Chairman and Members of the Committee:

I'd like to thank Chairman LaFalce and the other members of the House Small Business Committee for giving us the opportunity to offer some perspective on small business lending today. The last time that the National Association of Government Guaranteed Lenders (NAGGL) appeared before this committee in 1987, the whole question of the whether the Small Business Administration would continue was the focus of discussion. This committee and your Senate counterparts were critical to the eventual decision to maintain the SBA as an independent agency that offers financing and support to the growing small business sector of the American economy.

his time, there is a new problem which can perhaps be attributed to too much success in lending to the small business community. As before, a key resource for long-term financing to small businesses is being threatened. As before, the support of Congress and this committee in particular will be necessary to solve the problem.

My name is John Wagner. I'm the Executive Vice President of The Money Store Service Corporation. The Money Store has been the nation's most active SBA lender since 1983. I was a member of the original NAGGL Board of Directors and I have remained active in the organization's affairs.

The SBA has changed significantly in the 1980s. It has changed its focus and improved its quality. The results have been lower delinquencies and loan losses in the 7(a) loan program. The losses today are are about 3.7% of average portfolio. For comparison, the loan losses of small and medium-sized banks range between 2.0% to 4.6% on their conventional commercial loans. The SBA's 3.7% loss rate is particularly important since SBA loans have much longer terms, which usually implies higher risk of losses. We believe that the quality loan standards of the 1980s are responsible for these good results.

In addition to higher quality, the SBA has reduced its program costs significantly. The overall level of funding of the guarantee loan program has been cut by 31% since 1980. The guarantee fees charged to the borrowers have been doubled. The guarantee percentages given to the lenders have been cut substantially. The agency's staffing and other costs have been reduced. Through it all, the agency and the active SBA lenders who are represented by NAGGL have worked together to maintain a flexible but responsive loan program.

Indeed, the lenders have increased their commitment to small business lending. Presently, the demand for SBA 7(a) funds is outstripping the supply by $500 to $600 million for this fiscal year. This amount would represent the equivalent of all of the funds for the entire

first quarter of Fiscal 1990. In essence, we will have to tell thousands of borrowers, "Congratulations, your loan's approved. Now it will only take another three or four more months to get your money." I suggest that that kind of response does little to assist the small business borrowers that the program is designed to help.

Trimming the Federal budget deficit is a high priority on everyone's list. We need to re-think our allocation of resources to provide the best possible results in both social and national security areas.

It's fairly easy to identify the costs of social policy--the accountants can give you that data. However, the benefits arising from those outlays are much harder to determine. Because there has been little analysis of the benefit side of the equation, most of the debate on SBA financing (and other programs) has been based on philosophical rather than economic grounds.

Ladies and Gentlemen, we believe that we have some preliminary data which show that the economic benefits in additional tax revenues more than offset the costs of the SBA loan program. We're excited about these conclusions, preliminary though they are, for they move the discussion away from the philosophical to the pragmatic.

Two California State University professors, Dr. Dale Pletcher and Dr. Dennis Tootelian, undertook a survey of The Money Store Investment Corporation's borrowers. Their objective was to assess the economic results of those small businesses after they had had their SBA loans for at least two years. The professors used standard sampling and statistical techniques in developing their survey. We have provided you with a copy of their report. Among the results are the following statistics that even we found surprising:

- The borrowers reported that their sales were growing at an annual rate of 35% and their pre-tax profits were increasing by 16% per year.

- Their full-time employment was growing at a 16% annual rate.

- With higher sales, higher profits and employment, their tax payments increased as well. The state tax payments increased by 25% per year and, last but not least, the Federal Taxes increased at almost a 75% annual rate. In absolute dollars, the surveyed borrowers were paying in each successive year an additional $6,500 in State and Federal taxes after they had had their SBA loans at least two years.

Furthermore, these results do not account for any secondary economic benefits. These would include the increases in profits, employment and taxes which the borrower's suppliers will have. As these economic benefits ripple throughout the entire community, they may be several times larger than the direct benefits noted in the Money Store study.

In short, the survey of Money Store borrowers seems to demonstrate some substantial economic benefits after they had received their SBA loans.

As I've said, we regard the Money Store study as an important but reliminary step in assessing the economic impact of SBA lending. It obviously has some limitations. The Money Store is only one lender, although they are the largest. Other lenders around the country might have different results. The survey is not a long-term study over several business cycles. Also, the reported increases in profit and employment may not be attributable solely to the SBA program. Nonetheless, the preliminary information represents the first time that the benefits associated with SBA lending have been quantified.

Last week, NAGGL initiated a broader survey of borrowers throughout the country who have had their SBA loans for at least two years. We will be using the same professors and the same methodology. We are confident that the basic conclusions of the initial survey will be pheld.

As essentially the government's investment manager, the Congress is justified in saying, "Fine, so there's an increase in tax payments. Does that make the SBA financing program a prudent use of the government's money--does the economic benefit equal or exceed the cost of the lending program?" I included in your materials some exhibits which answer that question--affirmatively.

One of the standard textbook methods for analyzing investment feasibility is the "net present value" analysis. In that, the cash inflows and outlays for an investment are identified over its life. The results are discounted to their present value at the investor's own cost of capital. An investment is worthwhile if its net return is greater than that cost of capital.

We have taken some of the benefits quantified in the Money Store study and compared them with some of the costs per loan which the SBA has calculated for itself. The SBA data include direct costs of running the SBA's Finance and Investment Division and allocated overhead. Loan losses have also been factored into the analysis. We have reduced the tax increases reported in the study of the Money Store's borrowers. I won't go into all of the assumptions here, for they are described thoroughly in the written exhibits.

But when you review all of the data and apply the net present value analysis, the conclusion is clear--there is apparently a substantial benefit to the government in the form of added tax payments generated by SBA borrowers. I would encourage you all to review the professors' study and the present value analysis as a preliminary step to adding some real economic data to any discussions of the SBA program.

So we have a popular program that appears to have positive cash flow to the government--So what needs to be done next?

The SBA itself has acknowledged that it expects a half-billion shortfall in this fiscal year. Our own estimates are higher than that--we estimate that it could be as high as $600 million by September 30. Reprogramming some of the SBA's program allocations might free up $150 - $200 million this fiscal year, if OMB agrees. That will help, but we will obviously carry a substantial backlog of approved but unfunded loans into fiscal 1990.

Meanwhile, the SBA has already begun rationing credit. They have announced that they will no longer permit SBA loans to be used for re-financing existing debt. That hurts a lot of small firms who could improve their cash flow and growth with longer-term financing. Our members also report that the SBA has begun screening out borrowers who would have been welcomed a few months ago. The backlog

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continues to build and by the end of the fiscal year in September, there will be months of delays in getting loans funded.

We believe that additional funding will be required in the next fiscal year to meet the needs of the small businesses and the participating lenders. How much? If nothing is done this year, the backlog of loans carried over into 1990 will be about $500 - $600 million. The 7(a) program had been growing at about 20% in the last eight quarters. With all that, we would need about $3.2 to $3.5 billion dollars in Fiscal 1990. That is about the level of funding which the agency had at the beginning of this decade. Now, however, the funds are being directed to a better quality borrower who appears to have a very positive economic impact on our country.

If you have supported the objectives of the Small Business Administration's loan programs in the past, you have even more reason now to justify that support. During the 1980s, the program is working better than it ever has. But we need an investment decision from you, the government's investment managers, to allocate additional funding to the lending programs. For your investment, you will see both policy objectives and, better still, a positive economic impact in the next decade.

I'd again like to thank the committee for offering us the opportunity to comment on these issues. I would welcome any questions, today or in the future. Again, thank you.

EXHIBITS TO ACCOMPANY THE STATEMENT OF

JOHN C. WAGNER

on behalf of

THE NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS

on

SMALL BUSINESS ADMINISTRATION'S BUDGET

before the

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 22, 1989

Exhibit A: SBA Regular Business Loan Guarantee Program Levels, 1980 - 1987

Exhibit B: "SBA Loan Benefits - A Survey of Borrowers," with highlights, by Dale D. Pletcher, DBA, Professor of Finance, and Dennis H. Tootelian, Ph.D., Professor of Marketing, California State University, Sacramento, 1988

Exhibit C: Present Value Analysis of SBA Lending

EXHIBIT A

SBA REGULAR BUSINESS LOAN GUARANTEES
NUMBER AND DOLLARS (MILLIONS)
COMPARED TO PROGRAM LEVELS
1980-1987

FISCAL YEAR:	1987	1986	1985	1984	1983	1982	1981	1980
NUMBER	14,350	14,209	15,422	16,942	15,359	12,016	22,228	24,020
$ AMOUNT(ACTUAL)	2,232	2,129	2,315	2,463	2,094	1,516	2,804	2,901
PROGRAM LEVEL*	2,396	2,491	2,650	2,600		2,305	3,006	3,200

* Program level is the level of guarantees allowable under annual appropriations

EXHIBIT B

Highlights from the Study

SBA LOAN BENEFITS - A SURVEY OF BORROWERS

by Dale D. Pletcher, DBA
Professor of Finance,
and
Dennis H. Tootelian, Ph.D.
Professor of Marketing

California State University, Sacramento
1988

- The borrowers reported the following growth rates in their businesses after they had had their loans at least two years:

Item	1985-1987 Weighted Average Growth Rate
Sales	+ 34.76%
Pre-Tax Profits	+ 16.37%
Full-time Employment	+ 16.9%
Federal Taxes Paid	+ 74.52%
State Taxes Paid	+ 24.93%

- "...Over one-third of the loans made to small businesses would not have been available in the absence of [the SBA] program. The result would be fewer jobs, lower expenditures in the local economies where the businesses are located, reduced tax revenues paid to local, state and federal governments and a generally diminished level of economic activity."

- 64.5% of the borrowers rated their SBA loan as a key factor in their business success.

- For more than half of the borrowers, the SBA loan is 75% or more of their total debt and so respresents a key part of their financial structure.

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SBA LOAN BENEFITS - A SURVEY OF BORROWERS

Introduction

The Small Business Administration (SBA) has been in existence for 35 years, and was created in 1953 to aid, counsel, assist, and protect the interests of small-business concerns in order to preserve free competitive enterprise.[1] Over the years, this federal agency has had its share of supporters and critics. Proponents believe the agency has facilitated the growth and survival of small business - the cornerstone of the American "free enterprise" system. Critics cite costs of administration and small business failure rates as evidence that the SBA does not serve a useful purpose. Criticism of the SBA has probably existed as long as the SBA itself. It was argued by Wright Patman that the creation and support of the SBA would help small business compete with big business.[2]

Does the SBA serve a useful purpose, as its supporters would argue, or is it a program whose existence can no longer be justified? Specific issues of concern in assessing the value of the SBA include: does the SBA help borrowers who would otherwise be ignored; does the SBA provide useful services to business; does the SBA provide economic benefits to society sufficient to justify the use of public funds to continue its financial support?

The purpose of this study was to address these issues. A major focus was directed toward appraising quantitatively the economic benefits derived from the SBA guaranteed loans with respect to such factors as revenue generation, wages paid, and taxes paid. In addition, the study sought to determine whether the borrowers of one of the largest participating SBA loan guarantee lending institutions, The Money Store Investment Corporation (TMSIC), considered the SBA loan program worthwhile, and how successfully TMSIC was making and administering such loans.[3]

Methodology

In order to conduct this study, a questionnaire (Exhibit A) was developed to be administered to the SBA loan guaranteed borrowers of TMSIC. Total nationwide borrowers of TMSIC at the time of this study numbered 1,162. However, since a concern was to obtain annual financial data from borrowers for a period of at least two years in order to measure performance, recipients of loans made in 1987 and beyond were eliminated from the study. Therefore, the population was reduced to 843 borrowers, and all were given an opportunity to respond.

Two forms of the questionnaire were developed. The pre-1986 loan survey group was asked to provide selected financial information for 1985 and 1987, while the 1986 group was asked to provide financial information for 1986 and 1987. Both forms of the questionnaire were alike in all other respects.

Because loan recipients were geographically dispersed, and due to the length of the questionnaire, a mail survey was considered the most appropriate method for data collection. With respect to the survey instrument, respondents were asked demographic - type questions, including form of business (e.g. sole proprietorship, partnership), type of business (e.g. retail, service), length of time in business, and whether the businesses were women and/or minority owned. Respondents were also asked the primary purpose of their loans (e.g. business start-up, growth/expansion), the amount of their loans, and the length of time they had TMSIC/SBA loans. Questions were included concerning borrower satisfaction with the loan application process, loan administration, and the use of SBA support programs (e.g. SCORE counseling).

To assess the economic impact of the SBA program, questions were included pertaining to dollar sales, expenses, profits, and taxes for different time periods to evaluate growth in those variables. Additionally, questions were asked regarding borrower perception as to the importance of the SBA loan program in generating sales, profitability, and overall success of the business.

Responses to the survey were separated for the pre 1986 loan and the 1986 loan groups. Tests of relationships between selected variables were conducted using chi-square analyses.[4]

Results

From a mailing of 843 questionnaires, a total of 255 useable completed documents were returned, providing a response rate of 30.2%. Based on statistical tests, this sample size was found to be adequate to support a 95% confidence level with an error level well within normally accepted limits.

Loan and Borrower Characteristics

Fifty-three percent of the respondents stated that their businesses were owned by women, and 21% were minority owned. Over 71% of the respondents indicated that they had prior experience in seeking loans. In addition, 40% of the respondents said that they had been in business for over 10 years (Table 1). Respondents' answers showed that the mean age of their TMSIC/SBA loan was 3.1 years (Table 2). Over 83% of the businesses indicated that their loans were four or less years old.

Based on form of ownership (Table 3), the largest group, of all TMSIC/SBA borrowers indicated they had corporations (49%). If Subchapter S corporations were included with regular corporations, the percentage would rise to 63%. The next largest category of borrowers was proprietorships at 30%.

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Table 1

Years in Business

Years	Number	Percent
Less than 1	3	1.2
One to 4	77	30.2
Five to 10	74	29.0
Over 10	101	39.6

Table 2

Age of TMSIC/SBA Loan

Years	Number	Percent
1	18	7.1
2	87	34.5
3	62	24.6
4	44	17.5
5 or More	41	16.3

Table 3

Form of Business

Business Form	Number	Percent
Sole proprietorship	74	29.8
General partner	12	4.8
Limited partner	7	2.8
Corporation	121	48.8
Subchapter S	34	13.7

Retail businesses comprised the largest grouping of borrowers based on type of business activity (Table 4) at 35%, while 25% were professional services, and 21% were general services. If the two service categories were combined, they would become the largest category at 46%. Both the business form and the business activity classifications indicate a degree of balance among businesses utilizing this specific loan program.

In comparing respondent characteristics by selected cross-tabulations, two significant differences were found based on chi-square tests. The use and amount of borrowed funds varied by the form of ownership (x^2 = 43.77, d/f = 24, p = 0.008; and x^2 = 36.68, d/f = 16, p = 0.002 respectively). TMSIC/SBA loans to corporations tended to be larger, with 43% of the loans to corporations in excess of $250,000, while only 26% of the loans to proprietorships were in excess of that amount.

TMSIC/SBA loans constituted over 75% of total indebtedness for 55% of all respondents (Table 5). The percentage of indebtedness represented by SBA/TMS loans in comparison with total indebtedness from all sources exceeded 75% for more than one half the respondents in all business type categories except limited partnerships, where the percentage was 43%.

Table 4

Type of Business Activity

Business Activity	Number	Percent
Retail	86	35.2
General service	52	21.3
Wholesale	11	4.5
Manufacturing	25	10.2
Construction	10	4.1
Professional service	60	24.6

Table 5

Percent of Total Debt From TMSIC/SBA

Percent from TMS	Number	Percent
Under 25%	33	13.3
25% - 49%	39	15.7
50% - 74%	44	17.7
75% or more	132	53.2

Use of SBA Support Programs

A relatively small number of the respondents (35) indicated that they had utilized the various SBA support programs (Table 6) such as SCORE, ACE, and other counseling programs. Corporations were the major SBA support programs user. The programs most highly utilized were SCORE and Small Business Development Center Counseling.

Borrower Perceptions of SBA Loan Importance

The majority of TMS/SBA borrowers responded that they felt that the SBA loan was important or very important to their ability to generate sales (Table 7). Fifty-six percent indicated that they felt that the SBA loan was important or very important to their ability to generate profits (Table 8). An even larger percentage of the respondents (65%) answered that the SBA loan was important or very important to the overall success of their particular business (Table 9).

Based on chi-square tests, those with smaller loans tended to consider the funds more important to their firms' abilities to generate sales than did those with larger loans (x^2 = 26.4, d/f = 16, p = 0.049). Additionally, firms with a high percentage of their total debt in the form of TMSIC/SBA loans considered the loans to be a more important contributor to generating sales and profits than did those with a lower percentage of their total debt in the form of SBA/TMS loans (x^2 = 28.37, d/f = 12, p = 0.005; x^2 = 28.3, d/f = 12, p = 0.005 respectively).

Table 6

Use of Other SBA Programs

Program	Number	Percent
SCORE Counseling	14	35.9
Development Center Counseling	11	28.2
SCORE/Pre-Business Workshop	3	7.7
Development Center/SCORE Counseling	2	5.1
All Other Programs	5	14.7

Table 7

Importance of TMSIC/SBA Loan to Sales Generation

Degree of Importance	Number	Percent
Very Important	93	36.9
Somewhat Important	36	14.3
Neutral	53	21.0
Not Very Important	19	7.5
Not at all Important	51	20.2

Table 8

Importance of TMSIC/SBA Loan to Profit Generation

Degree of Importance	Number	Percent
Very Important	94	37.3
Somewhat Important	47	18.7
Neutral	57	22.6
Not Very Important	16	6.3
Not at all Important	38	15.1

Table 9

Importance of TMSIC/SBA Loan to Business Success

Degree of Importance	Number	Percent
Very Important	107	42.6
Somewhat Important	56	22.3
Neutral	41	16.3
Not Very Important	15	6.0
Not at all Important	32	12.7

Borrower Performance Information

Borrower performance information is presented in two parts: 1985-1987 data presented in Table 10, and 1986-1987 data presented in Table 11. Table 12 presents weighted performance data for the combined sample responses.

Table 10

1985-1987

Variable	1985 Mean Value	1987 Mean Value
Sales	$898,611	$1,253,805
Profit Before Tax	76,661	98,362
Labor Expense	177,332	268,606
Federal Taxes Paid	8,628	19,504
State Taxes Paid	2,734	5,647
Employees		
Full time	12.6	16.0
Part time	6.1	6.9

Table 11

1986-1987

Variable	1986 Mean Value	1987 Mean Value
Sales	$638,742	$1,016,586
Profit Before Tax	79,153	96,741
Labor Expense	93,142	102,637
Federal Taxes Paid	5,421	11,366
State Taxes Paid	5,058	4,820
Employees		
Full time	10.6	13.0
Part time	5.1	5.9

Table 12

Aggregate Performance Data

Variable	1985-1987 Weighted Average Growth Rate
Sales	34.76%
Profit Before Tax	16.37%
Labor Expense	12.95%
Federal Taxes Paid	74.52%
State Taxes Paid	24.93%
Employees	
Full time	16.0%
Part time	10.0%

Growth in all areas measured was strong and positive. For example, compound weighted growth in sales over the period studied was 34.76%. For the same period, profit before tax was up 16.37%, and labor expenses was up 12.95%, while employment of full and part time workers rose 16% and 10% respectively. Federal and state taxes also were up by rates of 74.52% and 24.93% respectively. All areas examined to gauge economic activity demonstrated positive growth, showing the contribution provided by these types of companies.

Borrower Likes and Dislikes

Of those responding, 81% indicated that they would choose to utilize the Money Store administered SBA loan program again. A very high 80% answered that they were either somewhat satisfied or very satisfied with TMS loan administration, and over 75% of the respondents said that they were somewhat satisfied or very satisfied with the TMS/SBA loan application process.

Over a third of the borrowers (38%) replied that they chose the SBA/TMS loan program because it was the only source of funds available. However nearly two thirds of the respondents cited other reasons for choosing the SBA/TMS loan program. Nearly 24% indicated that they liked the helpful personnel at TMS. In addition, slightly over 11% indicated that they liked the ease of borrowing, and the same percentage responded that they liked the low/reasonable payments (Table 14). A high level of satisfaction also was expressed on the part of those who utilized the SBA counseling programs. Over 61% said that they were either somewhat satisfied or very satisfied with those programs (Table 14).

Relatively few specific dislikes (Table 15) were mentioned on the part of survey respondents. The most frequently cited dislikes were: paperwork (19%), loan requirements (19%), the interest rate structure (17%), and collateral requirements (16%). Several suggestions for improving the TMS/SBA loan program (Table 16) included: change the loan requirements (22%), require less

paperwork (20%), change the interest rate structure (17%), and improve communications (13%).

Table 13

What Borrowers Like Most About TMSIC Loan Program

Characteristic	Number	Percent
Only Source of Funds	71	37.8
Helpful Personnel	45	23.9
Ease of Borrowing	21	11.2
Low/Reasonable Payments	21	11.2
Professional Manner/Handling	13	6.9
Miscellaneous	8	4.3
Length of Loan	4	2.1
Speed of Loan Process	3	1.6
Amount of Money Lent	2	1.1

Table 14

Satisfaction With Other SBA Programs

Level of Satisfaction	Number	Percent
Very Satisfied	14	35.9
Somewhat Satisfied	10	25.6
Neutral	6	15.4
Somewhat Dissatisfied	3	7.7
Very Dissatisfied	6	15.4

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Table 15

What Borrowers Dislike Most About TMSIC Loan Program

Characteristic	Number	Percent
Paperwork	32	19.0
Loan Requirements	31	18.5
Interest Rate Structure	29	17.3
Collateral Requirements	27	16.1
Handling of Loan Process	14	8.3
Length of Process	12	7.1
Impersonal Administration	9	5.4
Payment Structure	5	3.0
Miscellaneous	5	3.0
Loan Limits	4	2.4

Table 16

Borrower Suggestions for Improvement for TMSIC/SBA Loan Program

Specific Recommendation	Number	Percent
Change Loan Requirements	30	21.9
Less Paperwork	28	20.4
Change Int. Rate Structure	23	16.8
Better Communication	18	13.1
Miscellaneous	17	12.4
Change Collateral Req.	9	6.6
Change Dollar Limits	5	3.6
Change Payment Structure	4	2.9
Offer More Counseling	2	1.5
Better Coordination	1	.7

Conclusions and Recommendations

Despite criticism of the SBA loan guarantee program, it appears that in the case of this particular lender, The Money Store Investment Corporation, the program is providing very positive results. Borrower attitudes toward the SBA lending program are highly favorable; sales, profits, tax payments, and employment figures show healthy increases. Borrowers also appeared to be quite pleased with the manner in which TMSIC managed their loan application processes and the actual administration of their loans.

There is a strong likelihood that over one third of the loans made to small businesses would not have been available in the absence of such a program. The result would be fewer jobs, lower expenditures in the local economies where the businesses are located, reduced tax revenues paid in to local, state, and federal governments, and a general diminished level of economic activity. Individually, businesses such as these do not make much of an impact in the overall GNP output of the United States, but collectively they provide a significant contribution.

This study examined borrower attitudes of one specific SBA lender, TMSIC. A survey including borrowers through other SBA lenders might provide a more comprehensive picture of the effectiveness of the SBA loan program. However, there was no indication from this survey that borrower satisfaction with the SBA's program would be significantly different. Perhaps the greatest value of an expanded study would be to provide greater diversification of the types of loans offered by lending institutions.

Footnotes

1. Small Business Act of 1953, Section 3. United States Congress, Washington, D.C.: United States Government Printing Office.

2. "The Iron Triangle Strikes Again," Fortune, September 29, 1986, p. 148.

3. TMSIC is the largest SBA lender, with a total SBA loan volume in 1987 of $83,964,750. In comparison, TMSIC/SBA loans for 1986 numbered 341 with a dollar value of $76,769,655. Bank of America was the second largest SBA lender, with 214 loans in 1986 and a dollar value of $41,070,113.

4. Chi-square tests are a statistical computation that compares the distributions of responses found in a study with what would be expected by chance given the totals for rows and columns. The chi-square statistic, X, is a numerical value that is evaluated against probability computations based on degrees of freedom (d/f) and probabilites of that statistic occuring by chance (p).

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Exhibit A

Please answer each question in the space provided. All responses will be held confidential, and you need not identify yourself. Please return the completed questionnaire by May 6, 1988 in the postage-paid return envelope. Thank you for your assistance.

1. Please indicate the form of your business:
   1. Sole proprietorship _____
   2. General partnership _____
   3. Limited partnership _____
   4. Corporation _____
   5. Subchapter S corporation _____

2. Which ONE of the following best describes your business:
   1. Retail _____
   2. General service _____
   3. Wholesale _____
   4. Manufacturing _____
   5. Construction _____
   6. Professional service _____

3. For how long have you been in business?
   1. Less than one year _____
   2. One to four years _____
   3. Five to ten years _____
   4. More than ten years _____

4. What was the ONE primary purpose for your originally obtaining a The Money Store/SBA loan?
   1. Business start)up needs _____
   2. Working capital needs _____
   3. Real estate purchase _____
   4. Equipment/Facilities acquisition _____
   5. Refinancing existing debt _____
   6. Growth/Expansion _____
   7. Other (please specify): _____

5. What was the original amount of your The Money Store/SBA loan?
   1. Under $50,000 _____
   2. $50,001 to $100,000 _____
   3. $100,001 to $250,000 _____
   4. $250,001 to $450,000 _____
   5. Over $450,000 _____

6. For how many years have you had your The Money Store/SBA loan?
   Years: _____

7. Approximately what percent of your total long-term debt does your current The Money Store/SBA loan comprise?
   1. Under 25% _____
   2. 25% to 49% _____
   3. 50% to 74% _____
   4. 75% or more _____

8. Have you had any experience in seeking business loans other than with your current The Money Store/SBA loan?
   1. Yes ____
   2. No ____

9. Overall, how satisfied were you with The Money Store/SBA loan application process?
   1. Very satisfied _____
   2. Somewhat satisfied _____
   3. Neutral _____
   4. Somewhat dissatisfied _____
   5. Very dissatisfied _____

10. Would you choose to use The Money Store/SBA loan program again?
    1. Yes ____
    2. No ____

11. Overall, how satisfied are you with the manner in which your The Money Store/SBA loan is being administered and serviced?
    1. Very satisfied _____
    2. Somewhat satisfied _____
    3. Neutral _____
    4. Somewhat dissatisfied _____
    5. Very dissatisfied _____

12. Which of the following programs offered by the SBA have you used: (If none, please go to Question 14)
    1. Small Business Development Center Counseling _____
    2. SCORE Counseling _____
    3. ACE Counseling _____
    4. Small Business Institute Counseling _____
    5. Pre-Business Workshop _____
    6. Procurement Assistance _____
    7. Veterans Program _____
    8. Womens Program _____
    9. Advocacy _____

13. Overall, how satisfied are you with these other SBA programs you have used?
    1. Very satisfied _____
    2. Somewhat satisfied _____
    3. Neutral _____
    4. Somewhat dissatisfied _____
    5. Very dissatisfied _____

14. How many employees did you have in 1985?
    1. Number full time (30 hours per week or more): _____
    2. Number part time (under 30 hours per week): _____

15. How many employees do you have now?
    1. Number full time (30 hours per week or more): _____
    2. Number part time (under 30 hours per week): _____

16. In the space provided below, please provide the following financial data for 1985 and 1987. (1986 data not needed)

	1985	1987
1. Sales	$_____	$_____
2. Before-tax profit	$_____	$_____
3. Labor expenses	$_____	$_____
4. Total expenses	$_____	$_____
5. Federal taxes paid	$_____	$_____
6. State taxes paid	$_____	$_____

17. Overall, how important do you think your The Money Store/SBA loan has been to your business's ability to generate sales?
    1. Very important _____
    2. Somewhat important _____
    3. Neutral _____
    4. Not very important _____
    5. Not at all important _____

18. Overall, how important do you think your The Money Store/SBA loan has been to the profitability of your business?
    1. Very important _____
    2. Somewhat important _____
    3. Neutral _____
    4. Not very important _____
    5. Not at all important _____

19. Overall, how important do you think your The Money Store/SBA loan has been to the success of your business?
    1. Very important _____
    2. Somewhat important _____
    3. Neutral _____
    4. Not very important _____
    5. Not at all important _____

20. What ONE thing do you like most about The Money Store/SBA loan program?

    _____
    _____

21. What ONE thing do you dislike most about The Money Store/SBA loan program?

    _____
    _____

22. What ONE improvement would you recommend for The Money Store/SBA loan program?

_____

_____

23. Is this business partly or fully owned by a woman?
    1. Yes ____
    2. No ____

24. Is this business partly or fully minority owned?
    1. Yes ____
    2. No ____

Thank you for your cooperation. Please return this questionnaire in the self-addressed, stamped envelope by May 6,1988.

If you would like a copy of the summary findings from this study, please fill out the information below and detach it from this questionnaire. You can either enclose this form with your questionnaire or send it in separately.

Name: _____

Address: _____

_____

_____

Send to:

Dale Pletcher, Ph.D.
School of Business
California State University, Sacramento
6000 J Street
Sacramento, CA 95814

EXHIBIT C

NET PRESENT VALUE ANALYSIS OF SBA LENDING
Assumes Five Loans @ $200,000. Total = $1 Million

PERIOD	INCREMENTAL TAX (a) REVENUES FEDERAL	STATE	minus	SBA COSTS (b) ADMIN COSTS	LOAN LOSSES	=	(c) NET CASH FLOW	x	9% PRESENT VALUE FACTOR	=	(d) PRESENT VALUE
0	0	0		7,625	63,180		-70,805		1.0000		-70,805
1	0	0		1,500			-1,500		0.9174		-1,376
2	0	0		1,500			-1,500		0.8417		-1,263
3	18,690	3,115		1,500			20,305		0.7722		15,680
4	19,998	3,333		1,500			21,831		0.7084		15,465
5	21,398	3,566		1,500			23,465		0.6499		15,250
6	22,896	3,816		1,500			25,212		0.5963		15,034
7	24,499	4,083		1,500			27,082		0.5470		14,814
8	26,214	4,369		1,500			29,083		0.5019		14,597
9	28,049	4,675		1,500			31,223		0.4604		14,375
10	30,012	5,002		1,500			33,514		0.4224		14,156
11	32,113	5,352		1,500			35,965		0.3875		13,936
12	34,361	5,727		1,500			38,588		0.3555		13,718
13	36,766	6,128		1,500			41,394		0.3262		13,503
						NET PRESENT VALUE (e)					$7,084

Data Assumptions: Per SBA, the average loan in FY88 was $199,824 with a $161,171 guarantee, for an 80.7% average guarantee; the average term of an SBA loan is 13 years. The Money Store Investment Corp.'s (TMSIC) average loan size in 1985 was about $225,000. The TMSIC survey evaluated the tax payments of borrowers who had had their SBA two years or more. The results indicated that the average tax payments were increasing at growth rate of 25% for State taxes and 75% for Federal taxes from year to year. In absolute dollars, that represents an average of $5,607 increase per year in Federal and $892 in State tax payments. For 53% of the surveyed borrowers, the SBA loan rep - ents 75% or more of their total debt, so it is a major element in their financial structure.

(a) Incremental Tax Revenues: The increases in tax revenues are assumed to be delayed for two years after the borrowers had received their SBA loans. The increase in taxes is assumed to be $4,200 for Federal and $700 for State taxes over their pre-loan levels . To equalize the average loan size of the SBA versus the TMSIC borrowers, the TMSIC borrower's tax payments are reduced in the analysis by the 11% difference in average loan size ($25,000 difference, divided by $225,000 TMSIC average size). Thus, each borrower pays an extra $3,738 and $623 for Federal and State taxes, respectively. Rather than the substantial growth rate noted in the TMSIC survey, tax payments are projected to increase at 7% per year. All figures multiplied times five loans.

(b) SBA Costs: Per SBA's June, 1986 Report to Congress, "Alternative Sources for Loan Guarantees," it costs the SBA $1,350 to process each loan initially and $135 per year to service it (page 38). These costs include all direct costs of the Finance and Investment Division plus an overhead allocation. The costs are assumed to have increased to $1,525 initially and $300 per year to service (all figures are multiplied times five loans). The June, 1986 report also noted that the ultimate loss rate on loans appeared to have declined from 7.8% historically to 3.2% to 4.8% recently, probably due to the quality loan standards then in effect (page 39). However, the higher 7.8% figure has been used in the MAGGL present value exhibit as the assumed loss rate. The loan losses allowed for initially are ($200,000 x 81% guarantee x 7.8% loss rate x 5 loans =) $63,180.

(c) Net Cash Flow: Equals combined revenues minus combined costs

(d) Present Value: Equals Net Cash Flow per year times its 9% Present Value Factor, which are - derived from standard interest tables; 9% is approximately the Federal Government's present interest costs on bonds maturing in 12 - 13 years. This calculation creates a common reference point--today's equivalent of a future cash flow--in comparing varying cash inflows and outlays.

(e) Net Present Value: A positive net present value means that the proposed investment returns at least the amount necessary to finance it; in comparing investment alternatives, the investment that provides the highest net present value is the best choice financially.

Note: Only direct tax payments by SBA borrowers are included above. Secondary revenues from their suppliers, added employees, etc., are not included here.

NATIONAL SMALL BUSINESS UNITED

"Serving America's small businesses since 1937"

Statement of

Lewis Shattuck
National Small Business United

Before the
Committe on Small Business
United States House of Representatives

Concerning
Budget Appropriations
of the Small Business Administration

February 22, 1989

1155 15th Street N.W. Suite 710, Washington, DC 20005
Telephone: (202) 293-8830 Telecopier: (202) 872-8543

Mr. Chairman and Members of the Committee:

National Small Business United is pleased to have this opportunity to testify before the Small Business Committee concerning budget recommendations for the Small Business Administration.

National Small Business United is a not-for-profit association of regional small business associations and over 50,000 small businesses from across our country. NSBU is guided by a volunteer board of directors that sets policy for our Washington, D.C.-based staff.

At our recent Legislative Retreat in Florida, our leadership reaffirmed our position with regard to the federal budget deficit and the Small Business Administration. First and foremost, NSBU supports elimination of the federal budget deficit. We recognize that such an elimination may require revenue increases which we are prepared to support alongside corresponding cuts in spending. We also support two year budgets, and the line item veto and/or the enhanced rescission method to reduce the deficit.

Next, I would like to state--generally--our continuing faith in and support of the Small Business Administration. We are committed to keeping an intact and constantly improving SBA. We are pleased that the Administration has opted to break with the past and actually recommended that the SBA continue to exist. The SBA plays a critical role in supporting small business growth and small business development. Also, the development programs implemented by the SBA have, in the main, been highly fruitful and productive. If all agencies had suffered the cutbacks experienced by the SBA since 1980, we would not be experiencing this deficit today.

The SBA has been the subject of much attack through the years. It has been accused of being ineffective and wasteful. However, NSBU has successively pointed out that the SBA, though it has at times--like any government-run agency--had its faults, provides a substantial benefit for the small business community. The SBA has provided a vital role in the growth and expansion of small business. Funding the SBA is an investment in the growth of small business enterprises and that investment will add to revenues in a more positive way than by cutting programs or adding user fees.

At NSBU, we support the continuation of current SBA programs--with the exception of the direct loan program--at current funding levels. To the extent that the proposed budget obstructs that continuation, however, there are some specific adjustments that we

would like to see made. The most important program that seems to be targeted for the most substantial change is the 7(a) guaranteed loan program. The Administration has proposed changes in the 7(a) program that fly in the face of the very purpose and rationale for a guaranteed loan program.

GUARANTEED LOANS

During the Reagan Administration, it was decided that the 7(a) program should become more self-supporting. To that end, the guarantee fee was raised from 1 percent to the current 2 percent, and the guarantee percentage was reduced. Continuing on that path, the Bush Administration has now proposed raising the guarantee fee to 5 percent (an increase of 3 to 5 points, depending upon the program) and lowering the guarantee percentage to 75 percent for loans above the threshold. (The threshold would be lowered to $75,000). The entire cost of these effective guarantee fees are passed on directly to the small business borrower.

It is our contention that these changes defy the very justification for a guaranteed loan program. The 7(a) program acts as a "lender of last resort" for small businesses that can get loans--that they can afford--from no other source. The current proposal "prices" exactly those borrowers out of the 7(a) market.

The purpose of such a program is to provide access to long-term capital, in the form of loans, for small businesses that look promising and that provide a reasonable assurance of repayment--but who cannot acquire affordable capital through traditional means. Making the guarantee authority for the 7(a) program wholly self-funding seems contrary to the premise on which the program is based. The 7(a) program is designed to provide affordable loans for a certain, capital-scarce, market. It does so by encouraging risk-taking in small business investment by those banks who would not ordinarily take such a risk. Increasing the cost of the program for those businesses will drive them from that market and leave the program with no reason for existence. It is clear, however, that a very compelling need for such a program has been found. The 7(a) program must be made to respond to that need, rather than ignore it.

The argument is often made that only a very small percentage of small businesses ever take part in these loan programs. That is true. The fact is that budgetary constraints put a necessary cap on the number of businesses that can receive 7(a) loans. The number of loans being issued does not by any means define the demand for them. The current, largely unmet, demand for 7(a) loans is an appropriate example. The programs are only designed--necessarily--for a narrow market. That fact does not indicate that those businesses who do need it should not receive it. The 7(a) program must remain an affordable alternative for businesses. The

guarantee fee has already been doubled; a further increase would devastate this program!

I would like to add that this position on our part should not indicate that NSBU is supportive of government subsidization of weak businesses that are bad credit risks. NSBU supports the dismantling of the direct loan program. The direct loan program is too arbitrary and does not keep at "arms length" transactions between the government and small business. Too often, these loans go to businesses that have been turned for loans repeatedly-- usually because they are so unlikely to succeed. We see no real economic benefit being derived from the direct loan program, specially considering the remarkably high default rate. This high rate indicates a high failure rate for these businesses. The direct loan monies could be more economically beneficial spent elsewhere.

The direct loan program can easily be eliminated and the funds or authorization transferred for greater impact. We recommend that any monies that may be earmarked for the direct loan program be rerouted to support a 7(a) guaranteed loan program that already cannot support its demand and that provides necessary capital to much more productive businesses.

SMALL BUSINESS DEVELOPMENT CENTERS

It is a fact that 80% of this country's small businesses fail. The majority of those fail because of poor management. It may easily be extrapolated that the greatest small business problem is management skill. Further, the Small Business Development Centers are the only federally funded program designed to help the small business owner in the area of management. This country's Small Business Development Centers (SBDCs) play a critical role in the continuing growth and creation of the country's small businesses. The SBDCs provide the necessary link between the Small Business Community, the state and federal governments, and the educational community. It is good that the SBDCs have a close relationship with the SBA. NSBU cannot agree with the phaseout of the SBDC program proposed by the Administration.

NSBU has recommended that the Small Business Development Center program be strengthened and expanded to provide more versatile and greater outreach. The innovative counseling, education, and training that is provided by SBDCs has been very effective in stimulating and diversifying local economies. SBDCs are a critical link between the federal government and small business throughout our country. These educational efforts are essential to American competitiveness. At the same time, however, it is less than clear that more local governments and universities would be able to pick the full cost of maintaining their SBDCs.

For these reasons, we recommend continued funding of the SBDC program at current outlay levels.

OTHER AREAS OF CONCERN

We are also opposed to the institution of user fees for the Small Business Institute Counseling program. This is a program that utilizes universities and their students to research businesses' problems and make specific recommendations to those businesses. By setting a user fee--collected by the university--for this program, a sense of responsibility and liability for use of the recommendations is created for the university. Fear of that liability will likely force many of these educational institutions out of this area. The SBI program provides useful, innovative, and cost-effective information for many small businesses--that they cannot get elsewhere. Furthermore, these revenues are minuscule, especially when compared with the success and purpose of the program. Most importantly, unlike some programs, it cannot be argued that this program would continue without the current SBA funding.

As mentioned earlier, NSBU supports the continuation--at current funding levels--of all programs not specifically mentioned here. The SBA provides many vital services, and, if it is to remain true to its purpose, those services must continue. It must be recognized that there are many important programs which are

better performed by the operating public and private partnerships produced by the SBA.

Once again, NSBU thanks you for this opportunity to testify and urge your favorable consideration of the budgetary approach for the Small Business Administration that we have attempted to outline.

QUESTIONS FROM THE HONORABLE SILVIO O. CONTE TO

MR. JOHN C. WAGNER, THE MONEY STORE ON BEHALF OF THE NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS

1. ON PAGE 2 YOU STATE THE 7(A) PORTFOLIO LOSES ON DEFAULT WERE ABOUT 3.7% - COMPARABLE TO INDUSTRY LOSES OF 2-4.6%. SINCE LOSS RATES ARE COMPARABLE DUE IN PART TO BETTER STANDARDS AND BETTER QUALITY BORROWER AS YOU STATE ON PAGE 8 AND SINCE YOUR STUDY HAS DEMONSTRATED SUBSTANTIAL ECONOMIC BENEFIT TO THE COUNTRY IT APPEARS THAT SMALL BUSINESS IS A GOOD RISK. WHY NOT TAKE THE GOVERNMENT OUT OF THE PICTURE ENTIRELY AND LET THE BANKING INDUSTRY MEET AMERICA'S SMALL BUSINESS DEMANDS?

2. WHAT'S WRONG WITH REDUCING THE GUARANTEE LEVELS AND INCREASING BANK EXPOSURE ON LOANS?

3. HOW MUCH MONEY DID THE MONEY STORE MAKE LAST YEAR THROUGH THE 7(a) PROGRAM? SHOULD THE TAXPAYERS OF AMERICA SHARE IN SOME OF YOUR PROFITS SINCE THEY HAVE TO COVER YOUR LOSSES?

4. SINCE YOU SUPPORT SMALL BUSINESS ENTERPRISES AND THE 7(a) PROGRAM WOULD YOU OBJECT TO A REGULATION REQUIRING AN SBA PARTICIPATING LENDER TO CREATE A HIGH RISK LOW INTEREST RATE DEVELOPMENT FUND FROM ITS 7(a) PROFITS TO HELP START AND GROW SMALL BUSINESSES IN DISTRESSED AREAS?

RESPONSES TO QUESTIONS BY REPRESENTATIVE CONTE
ON TESTIMONY BEFORE THE COMMITTEE ON SMALL BUSINESS
BY THE NATIONAL ASSOCIATION OF
GOVERNMENT GUARANTEED LENDERS

1. QUESTION: On page 2 you state the 7(A) portfolio losses on default were about 3.7% - comparable to industry losses of 2-4.6%. Since loss rates are comparable due in part to better standards and better quality borrower, as you state on page 8, and since your study has demonstrated substantial economic benefit to the country, it appears that small business is a good risk. Why not take the government out of the picture entirely and let the banking industry meet America's small business demands?

   RESPONSE: The conventional loans offered to small businesses by banks have far shorter terms than do SBA-guaranteed loans. Conventional working capital loans are either short term -- one year or less -- or have three to five year terms for established bank customers. SBA loans are the only broadly-available financing for new and established firms that features long-term repayment. This improves the business's cash flow, which in turn promotes its growth. The testimony we offered shows that the Federal & State governments realize far more in tax revenues than the program costs.

2. QUESTION: What's wrong with reducing the guarantee levels and increasing bank exposure on loans?

   RESPONSE: Without the existing levels of guarantee, long term loans would not be as generally available nor as affordable for small businesses nationwide. Any reduction in guarantee must be replaced by an equal increase in the equity commitment by lenders: a 10% reduction in guarantee would require about $240 million in additional cash equity by the lenders who wish to make long term loans available to small businesses. There would consequently be fewer lenders willing or able to make that additional commitment to long term lending.

   Please note that the guarantee level is not the same as the government's cash commitment to support an SBA loan. The "cash costs" of SBA lending arise primarily from loan losses. The SBA has determined that the present value of its ultimate loss rate on loans is about 7.8%of net loans. On FY 89's $2.4 billion of guaranteed lending, the present value cash requirement would be $187,200,000. As noted in my testimony, the cash revenues and fees realized by State and Federal governments far exceed the costs of the lending program; according to our survey and analysis.

A 10% reduction in the guarantees would save the government about $18.7 million, which is inconsequential compared to the substantial benefits which the government realizes from the SBA lending program. To ask lenders to invest an additional $240 million to the government can save $18.7 million (which is more than offset by the additional tax revenues) would not appear to be a substantial improvement in fiscal policy. Please note that the guarantees to lenders have already been reduced several times in recent years.

3. QUESTION: How much money did The Money Store make last year through the 7(A) program? Should the taxpayers of America share in some of your profits since they have to cover your losses?

RESPONSE: The Money Store Investment Corporation contributed only a small portion of The Money Store, Inc., total earnings in 1988. As a privately held, family owned company, we do not publish our earning. The profits from TMSIC have risen over its 10 year history to a point where it is making a contribution to corporate profits, largely by offsetting established corporate overhead.

SBA lending appears to work best when combined with other financial services that a bank or other lender might offer. By itself, it is not a tremendous cash generating profit center.

In California, about ten Business & Industrial Development Companies (BIDCOs) were established to promote SBA lending by the State Department of Banking: Only one is active and successful -- most of the others have either closed or sold off their SBA portfolios or have merged with banks. When TMSIC got its licencing from the SBA as a Small Business Lending Corporation, there were 16 licences issued. Of those 16, only 5 or 6 remain active. Among those who have dropped out of the program are Merrill Lynch Capital, Beneficial Finance and Commercial Credit Corporations. These well-capitalized firms did not find SBA lending easy enough or profitable enough to continue.

4. QUESTION: Since you support small business enterprises and the 7(A) program, would you object to a regulation requiring an SBA participating lender to create a high risk, low interest rate development fund from its 7(A) profits to help start and grow small businesses in distressed areas?

RESPONSE: I believe that the comments above address the premise that SBA lending generates excessive cash flow to the participating lender. The Federal income taxes paid by The Money Store's parent company and other profitable lenders already creates the resources for a high risk, low interest development fund, should that be deemed a desirable economic policy. Further taxes appear to be unnecessary and unwarranted, in my opinion.

NET PRESENT VALUE ANALYSIS OF SBA LENDING
Assumes Five Loans @ $200,000. Total = $1 Million

CONCLUSION: The State and Federal taxes and fees paid by SBA borrowers are more than two times the government's costs for those SBA loans. As an investment, there would be an annual 26% internal rate of return to the government on those loans over a 13 year period. See assumptions below.

PERIOD	INCREMENTAL TAX (a) --REVENUES & FEES-- FEDERAL	STATE	minus	----SBA COSTS----(b) ADMIN COSTS	LOAN LOSSES	=	(c) 9% NET CASH FLOW	x	PRESENT VALUE FACTOR	=	(d) PRESENT VALUE
0	16,200	0		7,625	63,180		-54,605		1.0000		-54,605
1	0	0		1,500			-1,500		0.9174		-1,376
2	0	0		1,500			-1,500		0.8417		-1,263
3	18,700	2,975		1,500			20,175		0.7722		15,579
4	20,009	3,183		1,500			21,692		0.7084		15,367
5	21,410	3,406		1,500			23,316		0.6499		15,153
6	22,908	3,645		1,500			25,053		0.5963		14,939
7	24,512	3,900		1,500			26,912		0.5470		14,721
8	26,228	4,173		1,500			28,900		0.5019		14,505
9	28,064	4,465		1,500			31,028		0.4604		14,285
10	30,028	4,777		1,500			33,305		0.4224		14,068
11	32,130	5,112		1,500			35,742		0.3875		13,850
12	34,379	5,469		1,500			38,349		0.3555		13,633
13	36,786	5,852		1,500			41,138		0.3262		13,419
						NET PRESENT VALUE (e)					102,275

Data Assumptions: Per SBA, the average loan in FY88 was $199,824 with a $161,171 guarantee (80.7%); the average term was 13 years. The Money Store Investment Corp. (TMSIC) conducted a survey which compared the tax payments of borrowers after they had had their SBA loans two years or more. The results indicate that since receiving their SBA loans, their average tax payments increased at an annual growth rate of 25% for State taxes and 75% for Federal taxes. In absolute dollars, that represents an average annual increase of $5,607 in Federal and $892 in State tax payments. For 53% of the surveyed borrowers, the SBA loan is 75% or more of their total debt and so represents a major element in their financial structure.

(a) Incremental Tax Revenues & Fees: The SBA charges a guarantee fee of 2% on the guaranteed portion of the loan when it funds (Period 0). The increases in tax revenues are assumed to be delayed for two years after the borrowers had received their SBA loans. The assumed increases in tax payments are two-thirds of those reported in the TMSIC study. This adjustment allows for conservative analysis. In this analysis, each borrower pays an extra $3,740 and $595 for Federal and State taxes, respectively. Rather than the substantial growth rate noted in the TMSIC survey, tax payments are projected to increase at 7% per year. All figures are multiplied times five loans.

(b) SBA Costs: Per SBA's June, 1986 Report to Congress, "Alternative Sources for Loan Guarantees," it costs the SBA $1,350 to process each loan initially and $135 per year to service it (page 38). These costs include all direct costs of the SBA's Finance and Investment Division plus an overhead allocation. The costs are assumed to have increased to $1,525 initially and $300 per year for servicing (all figures are multiplied times five loans). The June, 1986 report also noted that the present value of the ultimate loss rate on loans appeared to have declined from 7.8% historically to between 3.2% and 4.8% recently, probably due to the quality loan standards which have been in effect since 1982 (page 39). However, the higher 7.8% figure has been used here for conservative analysis. The loan losses allowed for initially are ($200,000 x 81% guarantee x 7.8% loss rate x 5 loans =) $63,180.

(c) Net Cash Flow: Equals combined revenues minus combined costs

(d) Present Value: Equals Net Cash Flow per year times its 9% Present Value Factor, which is derived from standard interest tables; 9% is approximately the Federal Government's present interest costs on bonds maturing in 12 - 13 years. This calculation creates a common reference point--today's equivalent of a future cash flow--in comparing varying cash inflows and outlays.

(e) Net Present Value: A positive net present value means that the proposed investment returns at least the amount necessary to finance it; in comparing investment alternatives, the investment that provides the highest net present value is the best choice financially.

NOTE: Only direct tax payments by SBA borrowers are included above. Secondary economic growth which would generate incremental tax revenues from increased employment or the higher profits of borrower's suppliers are not included here.

QUESTIONS FROM THE HONORABLE SILVIO O. CONTE TO

MR. DERYL K. SCHUSTER, KANSAS BANK CORPORATION, et al ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

1. ON PAGE 2 YOU STATE "THE SBA LOAN GUARANTEE PROGRAM IS AN EXTREMELY IMPORTANT TOOL WHICH ENABLES COMMERCIAL BANKS TO ASSIST ALL ELIGIBLE SMALL BUSINESSES...ALL DESPERATELY IN NEED OF LONG TERM FINANCING." APART FROM THE 7(A) GUARANTEE, WHAT IS THE BANKING INDUSTRY DOING TO ADDRESS THAT NEED?

2. ALSO ON PAGE 2 YOU STATE THAT YOU "SERVE OVER 100 BUSINESSES WITH ABOUT $10 MILLION OUTSTANDING IN SBA GUARANTEE LOANS." WHAT ARE THE FIGURES FOR YOUR NON-SBA SMALL BUSINESS PORTFOLIO?

3. ON PAGE 3 YOU STATE "WITH THE GUARANTEE PROGRAMS CREDIT IS PROVIDED TO SMALL BUSINESSES THAT COULD NOT OTHERWISE SECURE CREDIT, ESPECIALLY LONG TERM DEBT FINANCING." IS THERE MERIT IS INVESTING IN BUSINESSES THAT COULD NOT SECURE CREDIT WITHOUT THE 7(a) GUARANTEE? IF YES, WHY DON'T MORE BANKS TAKE A CHANCE? IF NO, WHY SHOULD THE GOVERNMENT INTERFERE WITH A PURELY ECONOMIC DECISION?

4. ON PAGE 4 YOU STATE "THAT LOWERING CURRENT GUARANTEE LEVELS FOR FINANCIAL INSTITUTIONS AND RAISING THE FEES FOR LOANS WOULD REDUCE PARTICIPATION IN THE PROGRAM." ARE YOU TALKING ABOUT BANK OR BUSINESS PARTICIPATION? IF BANKS, WHY ARE THEY RELUCTANT TO PARTICIPATE, PARTICULARLY IF THEY ARE CONCERNED ABOUT JOBS AND GROWTH, IF THEIR EXPOSURE IS INCREASED? ARE BANKS RISK ADVERSE WHEN IT COMES TO SMALL BUSINESS?

5. ON PAGE 7 YOU STATE "THIS CLEARLY SHOWS THAT THERE IS A NEED FOR MORE LONG-TERM DEBT FINANCING THAN IS PRESENTLY AVAILABLE." WHAT DOES THE A.B.A. PROPOSE TO DO TO ADDRESS THIS NEED IF CHANGES AREN'T MADE IN THE 7(a) PROGRAM?

6. ARE THERE OTHER TYPES OF LOAN ACTIVITY MORE LUCRATIVE TO THE BANKING INDUSTRY THAN THE 7(a) PROGRAM?

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036

March 24, 1989

Congressman Silvio O. Conte
House Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Conte:

Thank you for the opportunity to testify before the Committee on Small Business on behalf of the American Bankers Association regarding the Small Business Administration's FY 1990 Budget.

Below are answers to the questions you asked during my recent appearance.

Q On page 2 you state "the SBA loan guarantee program is an extremely important tool which enables commercial banks to assist all eligible small businesses...all desperately in need of long term financing." Apart from the 7(a) guarantee, what is the banking industry doing to address that need?

A A GAO study a few years ago estimated that approximately 40% of long term debt to small business carried with it an SBA guarantee; therefore, it would seem logical to assume that the banking industry is providing much of the remaining long term credit (70%) [70 +40 =110] without SBA involvement. It is also logical to assume that this non-SBA credit is extended to the more stable, well-established and better capitalized small business concerns. The high mortality rate of the typical small business and the reasonable credit risk permitted within the banking industry due to the statutes and regulations that limit a financial institution's ability to loan to potential borrowers in certain risk categories, dictates the utilization of SBA's 7(a) guaranty program to assist a high percentage of the fragile small business sector of our society. Additionally, the banking industry has been and continues to be a major participant in long term 504 loans to small businesses for fixed assets as the industry was in the prior 503 and 502 loan programs.

Q Also on page 2 you state that you "serve over 100 businesses with about $10 million outstanding in SBA guarantee loans." What are the figures for your non-SBA small business.

A The banks within the sampling I mentioned in my testimony have an existing non-SBA commercial portfolio in excess of $25 million dollars. However, the banking organization has effectively utilized SBA loan programs in assisting many of their small business customers who would have been denied the credit without the SBA involvement.

Q On page 3 you state "with the guarantee programs credit is provided to small businesses that could not otherwise secure credit, especially long term debt financing." Is there merit in investing in businesses that could not secure credit without the 7(a) guarantee? If yes, why don't more banks take a chance? If no, why should the government interfere with a purely economic decision?

A It is assumed the term "investing" in businesses that could not secure credit without the 7(a) "guaranty" is meant to mean "lending to businesses that could not secure credit without a 7(a) guaranty". There is a difference between "investing" and "lending to" a business. Banks are prohibited by law from "investing in" small business ventures. They are, however, charged with the responsibility of making loans. Without SBA's loan guaranty program, many entrepreneurs not meeting the stringent criteria of safety and soundness as is required by banking policies and regulators, would not be permitted to pursue the American dream. Therefore, thousands of successful small businesses that have received SBA/bank assistance over the years and which are now contributing to the nation's employment base and economic vitality would not exist. Obviously, those in Congress who helped establish the SBA and those in Congress who have supported the agency over the years believe this important segment of our business economy is deserving of assistance, particularly in obtaining long term credit. Further, it should be pointed out that a high percentage of new jobs come from the small business sector as has much of our nations technology and

innovation. To preserve the free enterprise system and to maintain competition in the marketplace, support of small business has been, many times, confirmed to be wise public policy. We also point out to the inquirer that banks do "take chances," but it must be within the realm of reasonable risk as defined by a bank charter, bank policy and regulatory concern for safety and soundness of the banking industry.

Q On page 4 you state "that lowering current guarantee levels for financial institutions and raising the fees for loans would reduce participation in the program." Are you talking about bank or business participation? If banks, why are they reluctant to participate, particularly if they are concerned about jobs and growth, if their exposure is increased? Are banks risk adverse when it comes to small business?

A It is a well-established fact that extending credit to small and start-up business concerns carries with it more risk than credit extended to big business. In addition, big business has access to capital markets which is normally not available to the small business community. A reduction of the guaranty level to the lender funding an SBA 7(a) loan would logically reduce lender involvement in the program. Simply stated, the reduction would result because of the increased levels of risk in the credit to the lender. This is not because banks do not want to make the loans, but because banking regulations only permit the acceptance of limited risk because depositors' money must be protected.

Many commercial bankers utilize the guaranty program as a means of expanding their loan limits, thereby permitting the bank to provide greater assistance to their small business customers as they strive to keep their communities viable. As you may know, only the unguaranteed portion of an SBA loan applies to a bank's loan limit. This lets a small bank provide greater assistance to their customers and to their community. Already, a 15% (the unguaranteed portion of a loan) exposure on a $750,000 SBA loan exceeds the loan limit of many community banks. Without the guarantee, banks <u>may not</u> lend sufficient funds to these customers.

As pointed out in our testimony, the 7(a) loan guaranty program is a shining example of the Federal Government's leveraging of vast amounts of private sector resources with a relatively small government investment. Banks are not "risk adverse" toward small business within the realm of prudent safety and sound judgement. But without question, this fine SBA program has permitted banks to say "yes" to more small business lending opportunities than they could have without the program.

Numerous success stories verify the cost effectiveness of the 7(a) program. We believe the program is one the Federal government should strive to duplicate in other non-SBA program areas so that private sector resources can be utilized rather than direct government outlays. The impact on the Federal budget might be dramatic.

It is clear that if lenders curtail their utilization of the 7(a) loan guaranty program, the number of small businesses benefiting from this cost effective program will be reduced proportionately. It takes two -- the lender and the small business concern -- for this program to be operational. As far as OMB's proposal to increase the guaranty fee from 2% to 5%, we totally agree with Chairman LaFalce's statement that "if adopted, I believe that this would effectively kill the guaranteed loan program". Such an action in the opinion of the American Bankers Association's Small Business Committee would totally destroy the 7(a) loan guaranty program.

Q On page 7 you state "this clearly shows that there is a need for more long-term debt financing than is presently available." What does the ABA propose to do to address this need if changes aren't made in the 7(a) program?

A Given the regulatory environment in which ABA member banks operate, they are in no position to handle, without SBA involvement, the millions of dollars worth of deserving small business applications for long term financing. It will be the national economy which suffers if this need is not met; however, the suffering will be felt in community after community throughout America. Fewer jobs will be created, less capital purchases will be made and, yes, fewer taxes will be

paid to all levels of government. The ABA's Small Business Banking Committee would be pleased to meet with any member of the House Small Business Committee to explore alternatives on how to meet this need in our national small business environment. We do want to point out that no changes are needed in the 7(a) loan guaranty program. It is working well and we believe it is a net generator of revenue for the Federal Government. What is needed is expanded guaranty levels so that this program can become an even bigger contributor to our nation's economic well-being.

Q Are there other types of loan activity more lucrative to the banking industry than the 7(a) program.

A While the banking industry believes small business is good business, it certainly does not represent the most lucrative lending activity for most banks. This is because of the higher mortality rate of small businesses which translates into greater losses inherent in a small business portfolio, not to mention the expanded loan servicing requirements required to meet the needs of the typical small business customer and the regulatory concerns related thereto.

The banking industry is extremely supportive of SBA and the 7(a) program. The American Bankers Association will continue to work with Congress and the Administration to see that this tremendous program remain viable.

Sincerely,

Deryl K. Schuster